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List of Abbreviations

AA	Association Agreements
ACAAs	Agreements on Conformity Assessment and Acceptance (EC)
ACE	Azerbaijan Confederation of Entrepreneurs
ANCEI	Azerbaijan National Committee on European Integration
ANP	Azerbaijan National Platform
AP	Action Plan
ATUC	Azerbaijan Trade Union Confederation
BAS	Business Advisory Services
Bcm	billion cubic meters
BCP	Border crossing point
BIS	biometric identification system
BP	British Petroleum
BSEC	Black Sea Economic Cooperation
BS	Border Security
BSS	Black Sea Synergy
BTK	Baku-Tbilisi-Kars
CAP	Common Agriculture Policy
CDC	Caspian Development Corporation
CEE	Central and Eastern European
CEER	Council of European Energy Regulators
CIB	Comprehensive Institution Building Programme
CIB	Comprehensive Institution Building Programme (EU)
CIS	Commonwealth of Independent States
CoE	Council of Europe
CORLEAP	Conference of Regional and Local Authorities of the Eastern Partnership
CSF	Civil Society Forum
CSP	Country Strategy Paper
CSOs	Civil Society Organisations

DCFTA	Deep and Comprehensive Free Trade Agreement
IGA	Intergovernmental Agreement
GTA	General Transportation Agreement
HGA	Host Government Agreement
EaP	European Eastern Partnership (EU)
EaPIC	Eastern Partnership Integration and Cooperation
EBRD	European Bank for Reconstruction and Development
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECO	Economic Cooperation Organisation
ECSC	European Coal and Steel Community
EEA	European Economic Area
EEC	European Economic Community
EED	European Endowment for Democracy
EEP	European Energy Policy
EERP	European Economic Recovery Plan
EESC	European Economic and Social Committee
EFSF	European Financial Stability Facility
EFSM	European Financial Stability Mechanism
EFTA	European Free Trade Area
EGP	Enterprise Growth Programme
EIB	European Investment Bank
ENP	European Neighbourhood Policy
ENP AP	ENP Action Plan
ENPARD	ENP for Agriculture and Rural Development
ENPI	European Neighbourhood Partnership Instrument
EP	Eastern Partnership
EPTATF	Eastern Partnership Technical Assistance Trust Fund
ESS	External Security Strategy
EU	European Union
EU-ACP	EU-African, Caribbean and Pacific Group of States
EUBAM	EU Border Assistance Mission
EUROLAT	Euro-Latin American Parliamentary Assembly
EUROMED	Euro-Mediterranean
EUROPOL	European Police Office
EUROPOL	European Police Office
EUSR	EU Special Representative
FDI	Foreign Direct Investment
FI	Financial Investors
FRONTEX	Frontières extérieures for “external borders” (European Agency for the Management of Operational Cooperation at the External Borders of the Member States of the European Union)

FTA	Free Trade Agreement
GAMM	Global Approach to Migration and Mobility
GDP	Gross Domestic Product
GUAM	Organization for Democracy and Economic Development
IAP	Ionian-Adriatic Pipeline
IBM	Integrated Border Management
ICMPD	International Centre for Migration Policy Development
ICT	Information and Communication Technology
IDPs	Internally displaced persons
IEA	International Energy Agency
IFIs	International Financial Institutions
ILO	International Labour Organization
IMF	International Monetary Fund
INOGATE	Interstate Oil and Gas Transportation to Europe
IOM	International Organization for Migration
IPAP	Individual Partnership Action Plan
ISAF	International Security Assistance Force
ITGI	Interconnector Turkey-Greece-Italy
JHA	Justice and Home Affairs
LNG	Liquefied Natural Gas
MARRI	Migration, Asylum, Refugees Regional Initiative
MFA	Macro-Financial Assistance
MoU	Memorandum of Understanding
MSME	Micro, Small and Medium-sized Enterprise
NAM	Non-Aligned Movement
NFES	National Fund for Entrepreneurship Support
NGO	Non-Governmental Organization
NIP	National Indicative Programme
NTB	Non-tariff barriers
OCHA	Office for the Coordination of Humanitarian Affairs
OIC	Organisation of the Islamic Conference
OMC	Open Method of Coordination
OSCE	Organization for Security and Co-operation in Europe
PCA	Partnership Cooperation Agreement
PPRD	Prevention, Preparedness and Response to natural and man-made Disasters
PRDPs	Pilot Regional Development Programmes
PSA	Production sharing agreement
SAA	Stabilisation and Association Agreements
SAP	Stabilisation and Association Process
SBS	State Border Service
SCAD	Southern Caucasus Action Programme on Drugs

SCC	State Customs Committee
SCIBM	South Caucasus Integrated Border Management
SCP	South Caucasus Pipeline
SDII	Shah Deniz II
SEEP	South East European Pipeline
SLIS	State Labour Inspection Service
SMEs	Small and Medium Enterprises
SOCAR	State Oil Company of Azerbaijan Republic
SPCP-SC	Strengthening Protection Capacity Project-Southern Caucasus
SPS	Sanitary and phytosanitary standards rules
TACIS	Technical Assistance to the Commonwealth of Independent States
TAG	Trans-Alpine Gas Pipeline
TANAP	Trans-Anatolian gas Pipeline
TAM-BAS	Turn Around Management and Business Advisory Services
TAP	Trans-Adriatic Pipeline
TCGP	Trans-Caspian Gas Pipeline
TEN	Trans-European Network
TEN-E	Trans-European Energy Networks
TRACECA	Transport Corridor Europe-Caucasus-Asia
TSO	Transmission System Operator
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNHCR	United Nations High Commissioner for Refugees
US	United States
USA	United States of America
USSR	Union of Soviet Socialist Republics
WB	World Bank
WTO	World Trade Organization

Introduction

Twenty years after the achievement of independence, Azerbaijan is gradually emerging as a regional pivotal state in the heart of Eurasian space, and as a responsible partner in international relations.

Two structural features of Azerbaijani geopolitics seem to have contributed to this trend. First and foremost, being strategically located at the crossroads between the European, Middle Eastern and Central Asian scenarios, Azerbaijan has turned out to be an obligatory interlocutor for the arrangement and implementation of regional policies by the most relevant state and supranational actors active in Eurasian regional systems. On the other hand, its possession of large hydrocarbon resources and its location at the junction between the Central Asian energy producing areas and the European markets, raises Azerbaijan's strategic value within the fierce international competition for hydrocarbon access, exploitation and transportation. Against this background, a pragmatic foreign policy based on the principle of non-alignment and the attention traditionally paid to attracting foreign investment in the energy sector seem to have allowed Azerbaijan to capitalize on its geopolitical assets and to gain a relevant role in the multifaceted post-Soviet space.

Yet, Azerbaijan's role in the Wider Black Sea area makes the country a crucial partner for the European Union. Having reached the basin's shores in 2007, the EU pursues policies of stabilization and normative attraction of its Eastern neighborhood, based on the assumption that the Community's security and welfare begins beyond its borders.

Notwithstanding Azerbaijan's increasingly important regional profile, the country still seems to be suffering from what Dov Lynch almost a decade ago called the proximity/distance paradox affecting the broader Southern Caucasus region¹. Indeed, although the latter lies close enough to the European space to share its main political and economic dynamics and to force the EU to engage regionally, it is distant enough that threats emerging from the region are not

¹ D. Lynch, *The EU: Towards a Strategy*, in idem (ed.), *The South Caucasus: a Challenge for the EU*, Chaillot Paper No. 65, Paris, EU Institute for Security Studies, December 2003, p. 178.

perceived as immediate. In turn, in Europe this tendency reinforces a perception of “otherness” with regard to Azerbaijan and the Southern Caucasus, which is not justified by the investigation and analysis of XXI century geo-strategic and geo-economic dynamics.

The same paradox seems to be partially occurring in Italy, one of Azerbaijan’s main political and economic interlocutors in Europe. Doubtless, energy cooperation represents the backbone of the Italian-Azerbaijani strategic partnership. Indeed in 2011, on the eve of the twentieth anniversary of the establishment of bilateral relations, Azerbaijan became the main oil supplier to Italy which, due to its energy imports, has been the main designation for Azerbaijani exports ever since 1999 and the opening of the oil supply channel linking the two countries. Moreover, Italy is at the forefront of the EU effort aimed at the opening of a gas supply channel from Azerbaijan which, from 2017 onwards, will help reduce Europe’s dependence on Russian Federation supplies. However, looking beyond the energy sector, Italy’s position in the Wider Black Sea scenario, and its traditional inclusive view of regional relations as well as a production system complementary to that of Azerbaijan, create new and significant room for cooperation between the two countries.

Against this background – and consistently with the attention traditionally paid to the Caucasus by ISPI through the creation of a dedicated Program and the maintaining of a regular channel of dialogue with national policy and economic decision makers – cooperation between ISPI (Institute for International Political Studies) and SAM (Strateji Araşdırmalar Mərkəzi Center for Strategic Study) represents a significant development in view of the deepening of bilateral relations between Italy and Azerbaijan. Formalized in 2011, the ISPI-SAM partnership is indeed a privileged instrument with which to bridge the gap of understanding between the two countries and, not secondarily, to complement Italian-Azerbaijani intergovernmental cooperation with deeper scientific cooperation capable of supporting and strengthening the latter.

This volume – the result of the first ISPI-SAM joint research project – focuses on the European dimension of the bilateral relationship, a privileged area of cooperation between Baku and Rome. Indeed, the European Union 2004-2007 enlargements made security, stability and prosperity in the neighboring Eastern countries a key priority for the Union, whose social, economic and strategic stability begins outside its borders. Against this backdrop, the launching of the EU Eastern Partnership (EaP) represented an ambitious attempt to step-up bilateral and multilateral relations between the EU and its Eastern neighbors, and to provide new stimulus for the implementation of social and economic reforms. Indeed, there is a growing awareness that stabilization of the Eastern neighborhood is not simply a matter of successful foreign policy, but that it can bring economic and social benefits to Europe as a whole.

Yet, the improvement of the EU Eastern Partnership requires re-conceptualization focusing on those issues where cooperation and convergence are not only feasible but also more suitable in view of pan-European economic growth and security. New pragmatism based on best practices and greater and

strengthened involvement of non-state actors (that is entrepreneurs, small and medium enterprises, economic operators etc.) is hence needed.

The aim of this volume is to assess the functioning of the EaP within selected policies, and moving from their accomplishments and shortcomings, to identify means to improve the overall efficacy of the framework, taking into consideration both EU and Eastern partners' expectations and needs. Consistent with this, the volume is divided into two parts addressing EU and Azerbaijani views on the same selected topics – EaP general framework, energy security, economic cooperation and border security. Finally, the conclusion brings together Brussels' and Baku's perspectives, in an attempt to pragmatically identify a common ground on which to base the enhancement of EU-Azerbaijani bilateral and multilateral relations.

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Part I

Eastern Partnership Framework

1. EU Eastern Partnership Policy: a Second Chance for the EU Transformative Power?

Tomislava Penkova

Introduction

The European Union (EU) Neighbourhood Policy (ENP) sought to achieve stability by advancing a value-driven agenda of political transformation in bordering countries. Thus democracy promotion featured prominently in EU narrative and action. That goal, however, proved to be difficult to accomplish. The EU's eastern neighbours did not follow the same path and reform pace as the Central and Eastern European (CEE) countries did after the demise of the Soviet Union. The desired transformation did not take place. The ENP approach appeared somewhat ill-conceived and the EU opted to upgrade and correct it by launching an Eastern Partnership (EaP) policy in 2009. The EaP has indeed introduced some positive novelties like dialogue and greater involvement of non-state actors. It also prioritises functional and sector-based cooperation, and appears more pragmatic than the ENP. Despite initial enthusiasm and high expectations on both sides, after three years significant progress is still lacking. This is because the EaP reiterates some of the ENP's deficiencies and signals a general EU incapacity to deal with its eastern neighbours and with the complex regional specificities. Partner countries are hence quite sceptical about the EaP and are increasingly starting to adopt a more independent and at times even opportunistic stance vis-à-vis Brussels. As a result, the EU impact is significantly weakened.

This paper will start with a brief analysis of the ENP as the framework from which the EaP originated later on. The second part will explore the causes that have led to the lack of success of the ENP and consequently to the need to introduce a new, more specific policy – the EaP. The third part will

examine the EaP rationale and goals as well as its functioning. Finally, the fourth section will evidence a number of deficiencies that hinder the potential of the EaP and ultimately diminish its regional influence. The conclusions will then advance some proposals on specific aspects of EU policies that should be improved in order to allow the Union to have a real second chance in its approach to the adjacent eastern region. For the purpose of reflecting the EU perspective as faithfully as possible, I conducted several interviews with officials from the European parliament, the Council of the EU and the EU External Action Service, whose opinions are illustrated in the sections below.

1.1. ENP: a Policy of Democracy Promotion

The ENP was officially launched in 2004 and comprises an area of sixteen countries located both on the southern and the eastern EU rim, without distinguishing between their peculiar political, economic, social and cultural national features. In this paper I will deal exclusively with the six EU eastern neighbours – Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine – which are now covered by the Eastern Partnership policy.

What were the rationale and goals of the ENP? The ENP was intended to build a zone of stability around the EU by transforming neighbouring states into democracies through comprehensive reforms that would have changed their political and economic systems. In other words, the eastern neighbours should have become “like western EU members” and should have adopted EU values and standards. This implied mainly a value/norm-driven and EU-centric policy approach prioritising the political component. In fact, «the EU shapes its immediate external environment in its own image. It is an explicit attempt to structure the immediate neighbourhood along the dominant principles and norms of the EU»¹. As a result of this process, the EU would have prevented the emergence of a “fortress Europe” or of new “dividing lines” in Europe between the enlarged EU and its neighbours, that are creating a two-speed Europe, with an integrated and prosperous Europe in the West and a much poorer, unstable and less democratised Europe in the East. Hence, the ENP was meant to be a democracy promotion tool for the region. It is a widely accepted opinion among scholars that the EU is one of the most important international advocates of democracy. In fact, this aspect characterised EU foreign policy after 1991 to the extent of shaping the EU’s international profile and action. So far, democracy promotion has relied on a direct relation with and influence on the national political elite (exercised through regular political summits and joint

¹ T. Casier, *The European Neighbourhood Policy: Assessing the EU's Policy toward the Region*, in F. Bindi (ed), *The Foreign Policy of the European Union. Assessing Europe's role in the world*, The Brookings Institution, 2010, pp. 101-102.

committees excluding any participation of non-state local actors) with the aim of provoking top-down institutional change. The EU expected that its attractive model system would increase its leverage in the region, but that approach did not yield substantial results. On several occasions during the process of democratisation the EU made use of different instruments such as contagion, convergence and conditionality². In the case of contagion (which occurs when events in one country or a group of countries spread across borders to the extent that they are seen to be attractive or achievable), Brussels assumed that its eastern neighbours would follow the example of the CEE countries in their democratisation and reform path. It also relied on the fact that having at least one country with a satisfactory record of reform advancement (as Ukraine was considered before the advent of President Yanukovich) would serve as a model to emulate in the region facilitating the Europeanisation process. Both assumptions turned out to be ill-founded due to the absence of identical starting conditions or aspirations (of ENP countries with CEE ones and among single ENP countries) and undermined EU leverage on those governments. Convergence follows contagion and its outcome, and refers to the gradual movement towards system conformity and the internalisation of democratic norms by elites and populations in the targeted states. Undoubtedly conditionality is the most important tool for exerting direct influence on a country by linking perceived benefits to the fulfilment of a particular programme and the implementation of democratic principles and institutions. Indeed, it is a «strategy on reinforcement by reward [that] affects the domestic equilibrium and may change the cost-benefit balance»³. It uses the “carrot and stick” logic to persuade and at times coerce states to adopt the desired policy. Perceived benefits can range from economic/trade gains to political recognition and achievement of a political status. Conditionality is the tool that associates the neighbourhood policy with the enlargement one, but in contrast to the latter, the former lacks a membership prospect. Studies on enlargement suggest that the compensation component of conditionality is crucial in triggering reforms in partner countries and hence the reward of membership is intended to be a strong incentive for a country to implement reforms. But the conditionality mechanism has demonstrated its weakness in the absence of a membership recompense. In this way, the EU itself challenged the feasibility of its own policy. Now «the EU conditionality is weaker and vaguer on both sides. The ENP conditions are easier to bypass than those required for accession, and the rewards promised are vague and uncertain ... [Thus we have a] condition-lite – a form of conditionality without clear commitments and rewards»⁴.

² G. Bosse, *A Partnership with dictatorship: Explaining the paradigm shift in European Union policy towards Belarus*, «Journal of Common Market Studies», Vol. 50, No. 3, 2012, p. 370.

³ T. Casier, *The European Neighbourhood Policy:...*, cit., p. 106.

⁴ *Ibidem*, p. 108.

As membership is excluded, some scholars have called this policy “enlargement-lite”⁵ or a “weak derivative of the accession process”⁶, while EU officials acknowledge that the ENP is indeed an alternative to enlargement (“everything but the institutions”). This is so because not all EU Member States agree on the prospect of future enlargements, expressing concerns about EU over-expansion, erosion of EU standards, low absorption capacity and existing enlargement fatigue, risk of institutional non-governability and loss of social cohesion due to a too-rapid enlargement process. The enlargement-lite attitude created not only ambiguity in the EU approach but also discontent among the eastern ENP countries. «One has to note also that the prospect of membership or lack of it is not an abstract concept, but it has implications for the level of intensity of relationship with the EU and the level of the EU’s commitment and involvement»⁷ because the domestic agenda in the target country (its actions and reactions) is considered to be of the utmost importance for the success or failure of EU policy. Taking into consideration the lack of accession perspective, many ENP countries slowed down the reform process as gains were uncertain, while sacrifices required significant efforts that were not always welcomed by the population or did not meet the economic interests of the local political establishment. These two factors (conditionality-lite and enlargement-lite) started eroding the EU’s image and ability to be a successful democracy promoter in the region.

1.2. Factors Explaining the Failure of the EU as a Transformative and Democracy Promoting Power

Condition-lite and enlargement-lite are just part of the explanation of the weak EU impact on ENP countries’ transformation into democracies. The ENP and democracy promotion failed not only because the membership prospect was absent, but also due to a number of other factors listed below, which cast light on the regional peculiarities and explain the limits of the EU approach.

1. The idea of the ENP was to export democratic values and standards to the eastern neighbours. Brussels assumed that automatic, independent (that is carried out by the single countries themselves) and unproblematic change would have been possible, understood, accept-

⁵ N. Popescu and A. Wilson, *The limits of enlargement-lite: European and Russian power in the troubled neighbourhood*, ECFR, June 2009.

⁶ M. Emerson, *Just good friends? The European Union’s multiple neighbourhood policies*, «The International Spectator», Vol. 46, No. 4, December 2011, p. 45.

⁷ I. Solonenko, *Overview and comparison with other transition countries (CEE, Western Balkans, Central Asia)*, in “A strategic roadmap for civil society in the Eastern Partnership, Eastern Partnership Civil Society Forum”, November 2011, p. 8.

ed and implemented by those countries. Change (towards democracy) would have brought stability in the EU neighbourhood in the same way as it occurred in CEE countries, which had also experienced the Soviet Union past. However, unlike the latter case where the “return to Europe” metaphor provided a strong identity stimulus for those states to embark on a comprehensive reform programme, the eastern ENP countries did not adhere to this logic. These countries are situated in a “contact zone” between the EU and Russia, which complicates their nation-building process and independent foreign policy, and requires a much more nuanced EU approach. Their geographical location implies a strategy of maneuvering between the two regional poles – Brussels and Moscow. Moreover, the concepts of change/transformation and stability have different meanings for the EU and for its eastern neighbours. For the latter, transformation is not always sought or perceived as necessary either by the ruling elites or by ordinary people, while stability refers more to pragmatic and balanced relations with regional powers (like Russia and Turkey) and is more closely related to economic benefits than to a process of spurring political uniformity across the region.

2. The above-described factor is rooted in the type of political elite in power in the EU eastern neighbours and the EU’s insufficient knowledge of local peculiarities. After the collapse of the USSR, neo-patrimonial regimes were established in eastern neighbouring countries. These regimes have taken a firm hold of the countries’ resources and institutions during the past two decades. The political elites that represent those regimes are interested in preserving the status quo (and so rent-seeking opportunities). Any reform demanded by the EU may disrupt this status quo. Often those elites assume that the Europeanisation process would guarantee them a constant financial flow even without fully carrying out their reform agenda. Consequently, to signal their interest in receiving European funds, those post-Soviet societies frequently make use of the European integration rhetoric. Taking into consideration these circumstances, the EU’s top-down approach was doomed to failure. Additionally, the demand for reforms in these countries by the local civil society was too weak. Hence, expectations were dashed for both sides as they were not embedded in strong ideals.
3. The development of the region under scrutiny has been highly uneven after the collapse of the Soviet Union and despite some common features that emerged after the demise of the USSR. The substantial diversity from EU members and the lack of homogeneity makes it hard

for the EU to successfully apply a “one-size-fits-all” scheme like the ENP to those countries.

4. The ENP has prioritised the political component (democratic values and norms) over the economic one, which has also proved to be the wrong approach⁸ taking into account the political culture in place in those countries. In addition, the EU approach was EU biased, that is paying greater attention to EU needs and thus establishing an asymmetric relationship which leaves target countries with no say about future commitments and national priorities.
5. Although not denying the intrinsic value per se of democratic principles, their mechanical transposition (scholars call it mimetic isomorphism) to the EaP countries led to a complex and difficult process of assimilation, which rarely ended with a real breakthrough. Such transpositions may be misleading considering the different configuration of distribution of political power and decision-making in the EU eastern neighbours⁹.
6. The economic crisis that started in 2008 and the subsequent EU single currency crisis have gradually diverted EU attention and resources towards its own internal needs hardship instead of towards the neighborhood.
7. The effects of enlargement fatigue are still in place.
8. There is no consensus among EU Member States and EU eastern neighbors on future enlargements.
9. The unsolved issue of EU-Russian relations weakens EU influence in these countries. Its significance is heightened by the fact that in the post-Soviet space, other actors’ regional interests and influence are intertwined, and the EU approach cannot advance a viable synthesis of them. In addition, Moscow made it clear that EU-Russian relations should be settled before relations between the EU and its six eastern neighbours. This implies two considerations. First, that the EU eastern neighbours are viewed as a bargaining chip in EU-Russian relations (and not as subjects with their own policies and goals), and second, that their fate should be decided jointly with Russia. In this sense Russia amounts to a competing actor or intervening factor in the relation between the EU and its eastern ENP partners. As a result, the EU should revise its approach and should include Russia, because it represents an important factor for those countries and for regional stability.

⁸ Author’s interview with European parliament officials from the Committee on Foreign Affairs, June 2012.

⁹ For example, in Ukraine the political elite (President, government) and its agenda depend mostly on the financial support and interests of its business backers and big industrial groups (oligarchs). In Belarus, on the contrary, it is the President himself who dictates the main guidelines of national politics.

All the above factors account for the failure of the ENP approach as a democratising transformative power on the EU eastern rim (some scholars even support the thesis about the end of the democratisation paradigm in the EU's foreign policy). «Since its enlargement to central and eastern Europe in 2004 and 2007, the EU has seriously struggled to find an appropriate policy to address countries in its vicinity. ... the smaller the EU's "power to attract" becomes, the less leverage will it have to convince neighbouring countries to embark on costly reform and democratisation processes»¹⁰. Therefore the turn towards a more functional and sector-based engagement, such as the EaP, was conceived as a response to correct the limits of the ENP.

1.3. The EU's Second Chance in the Region: the EaP as a Sectoral Type of Cooperation

Interestingly enough, while the launch of the ENP coincided with the Colour Revolutions in the post-Soviet space, the inauguration of the Eastern Partnership policy also followed a conflict situation – the August 2008 war between Georgia and Russia. In addition, it was proposed by Poland¹¹ – a fierce opponent to Russia's politics in the region. However, «we should not view the EaP exclusively as an answer to Russia's actions in Georgia. The conflict in 2008 simply speeded up the finalisation of the idea of EaP, but the Russian factor was neither the cause nor the objective of developing the EaP. The EaP was related in the first place to the attempt to strengthen the efficiency of the ENP and, secondly, to allow some "new" EU members to announce their foreign policy priorities»¹². Thus, following the setbacks of the ENP, the EaP, promoted by Poland and Sweden at the Prague Summit in May 2009, was therefore an attempt to mitigate the negative image of the EU after the ENP and upgrade the latter policy by exploiting the high expectations and optimism of both parties. It specifically addresses the six eastern EU neighbours (for the EU southern rim, former French President Nicolas Sarkozy launched the Union for the Mediterranean).

The Prague Declaration defined the EaP as a «more ambitious partnership... founded on mutual interests and commitments as well as on shared ownership and responsibility. The Eastern Partnership builds on and is complementary to exi-

¹⁰ G. Bosse, *A Partnership with dictatorship:...*, cit., p. 368.

¹¹ The fact that the idea of the EaP was advanced by Poland, a country that is familiar with the EU eastern neighbours and expects to play a bridge role between those countries and western Europe, is particularly important. Poland is a member of the Visegrad Group together with the Czech Republic, Hungary and Slovakia, and it has placed rapprochement with the EU eastern neighbours high on the European and Visegrad Group agenda. For example, at its March 2012 meeting, the Group established a new programme called Visegrad 4 Eastern Partnership (V4EaP) within the International Visegrad Fund aiming to support political and socio-economic reforms in the partner countries, to facilitate comprehensive approximation towards the EU, strengthen regional cooperation among the eastern European partners and enhance institutional capacity and civil society.

¹² A. Strelkov, *EU policy in the post-Soviet region, Issue European Union and Russia: Policies in post-soviet space*, «Urgent problems of Europe», No. 2, 2011, p. 21.

sting bilateral contractual relations. It will be developed without prejudice to individual partner countries' aspirations for their future relationship with the European Union. It will be governed by the principles of differentiation and conditionality. ... The Eastern Partnership will be developed in parallel with the bilateral cooperation between the EU and third states. ... The Eastern Partnership will seek to support political and socio-economic reforms of the partner countries, facilitating approximation towards the European Union»¹³. The second EaP summit was held in September 2011 in Warsaw during the first Polish EU presidency and it reaffirmed the Prague 2009 agenda. Besides it, the Warsaw summit Final Declaration acknowledged the «European aspirations and the European choice of some partners and their commitment to build deep and sustainable democracy»¹⁴. While the EU approach indeed underwent some changes, as underlined in the summit Declarations above, most of the EaP countries criticised the policy for its lack of new offers and membership prospects to them. The above statement contained in the Warsaw summit document disappointed those partners who had hoped for a direct reference in the Final summit Declaration to the accession Article 49 of the Lisbon Treaty (some of them, such as Ukraine, Moldova and Georgia, disliked terms such as “neighbour” or “partner” as they sound neutral and do not hint at any integration perspective). Nevertheless, they accepted the EaP as the underlying basis for their relations with Brussels. As a matter of fact, the EaP provided a new separate «institutional set-up to manage the enhanced relationship between the EU and its eastern neighbours... The ENP launched in 2004 to foster stability, security and prosperity at the enlarged EU's borders had not introduced any new institutional scheme to sustain these objectives. As a result, from 2004 until the creation of the Eastern Partnership, bilateral cooperation between the EU and its eastern neighbours, exclusively developed under the existing contractual framework (that is Partnership and Cooperation Councils and Committees) and following the political guidance provided by the ENP Action Plans»¹⁵. The acceptance of the EaP policy, however, does not amount to an automatic commitment to (political) reforms as they are required by Brussels. Some countries reject such developments, which they view as a threat or interference in their domestic affairs. In contrast, economic cooperation is much more appealing because it is more pragmatic, leading to concrete results and direct mutual gains. Thus for the six neighbours, economic cooperation is detached from the goal of political convergence established by the EU, whereas for the latter the two dimensions should run in parallel¹⁶.

¹³ Joint Declaration of the Prague Eastern Partnership Summit, Prague, 7 May 2009, http://ec.europa.eu/europeaid/where/neighbourhood/eastern_partnership/documents/prague_summit_declaration_en.pdf, pp. 5-6.

¹⁴ See http://ec.europa.eu/europeaid/where/neighbourhood/eastern_partnership/documents/warsaw_summit_declaration_en.pdf, p. 1.

¹⁵ L. Delcour, *The institutional functioning of the Eastern Partnership: an early assessment*, «Eastern Partnership Review», No. 1, October 2011, p. 6.

¹⁶ In order to do so, while also respecting local political peculiarities, some EU officials have suggested that Brussels should exploit sectoral economic cooperation (such as energy, visa issues) as a bargaining chip to

The new institutional framework foresees substantial advancement of the level of political and economic engagement through, respectively, new Association Agreements and far-reaching integration into the EU economy (deep and comprehensive free trade areas) leading to convergence with EU normative standards; mobility of citizens of the partner countries promoted through visa facilitation and readmission agreements as a first step and in a second stage through a visa-free regime; enhanced people-to-people contacts and the participation of partner countries in EU programmes; increased financial assistance; cooperation in energy and environment sectors. In contrast to the ENP which was mainly based on the democracy promotion rationale, the EaP appears to be functional/sector-based type of cooperation policy. It involves specific technical sectors belonging to low profile politics where EU assistance does not aim exclusively at prioritising democratic institutions and processes. Functional cooperation is also more detailed compared to the vague concept of democracy, often contested in its contents. Furthermore, the instruments that the EU deploys are mostly bureaucratic¹⁷. «The short-term aim of functional cooperation is to solve collective action problems of states in uncontroversial economic or technical areas. The negotiations tend to be led by experts or economic elites rather than governments as the sole decision-making body... Yet the functional cooperation also envisages a long-term aim: regional integration for the gradual introduction of free trade. The key tools to achieve these aims can broadly be summarised as elite socialising and spillover»¹⁸. Such a type of cooperation may gradually lead to a de-politicisation of cooperation and help unblock those intricate situations in bilateral relations that hinder further progress on both sides. «Democratisation of the partner countries can be not so much a condition for rapprochement with the EU, but the result of such rapprochement. The EaP in this sense can be considered... as a tool to complete the processes of de-Sovietisation, nation-building in the partner countries, and their Europeanisation and democratisation»¹⁹. In this sense, a functional and pragmatic EaP can be viewed as the EU's second chance to adjust its approach towards its eastern neighbourhood and facilitate deeper rapprochement. Moreover, the functional approach is interest-driven and shared interests and goals could become a stimulus to overcome divisions created by the democracy promotion approach. Some scholars, however, express scepticism about the direct causality between sectoral integration and democratisation noting that the «EU's cooperation with its EaP partners allows approximation in different sectors without necessarily translating this into meaningful political reform. Due to the EU's strong interest in specific areas such as energy supplies, sector-

achieve also political objectives also. Author's interview with officials from the EU External Action Service, June 2012.

¹⁷ N. Shapovalova and I. Solonenko, *Is the EU's Eastern Partnership promoting Europeanisation?*, FRIDE Policy Brief No. 97, September 2011, p. 5.

¹⁸ G. Bosse, *A Partnership with dictatorship:...*, cit., pp. 370-371.

¹⁹ A. Yahorau, *A civil society roadmap for democratic transition*, in *A strategic roadmap for civil society in the Eastern Partnership*, Eastern Partnership Civil Society Forum, November 2011, p. 18.

based cooperation is possible even without common values»²⁰. It is still too early to assess whether future cooperation will indeed be developed without referring to shared value.

One of the most important innovations introduced by the EaP is the role attributed to civil society and in general to non-state actors. While the EU's acknowledgement of the need for greater involvement of local societies and bottom-up changes should be welcomed, this very fact is symptomatic of the EU's inability to deal with local governments. In fact, EU documents tacitly admit this in the following statements, «Civil societies organisations are key actors in promoting democratic and market-oriented reforms based on shared values, and a thriving civil society is a barrier against authoritarianism»²¹ as well as the «challenge of fostering civil society and pluralism is felt throughout the neighbourhood but is particularly acute for countries engaged in fast political change or where repressive political regimes continue to stifle pluralism and diversity»²². Indeed, at the beginning of the neighbourhood policy processes, the EU thought that transition would be an easy process based on the emergence of political will among the ruling elites of partner countries to move towards the EU. Dialogue with those elites showed, however, that the EU influence in that regard was not only weak but almost inexistent (many scholars seriously doubt that reforms triggered by Brussels are still possible). In these circumstances, approaching and empowering non-state actors was conceived as a remedy to the difficult relationship with local leaders and an attempt to complement and reinvigorate the EU's waning attractiveness and policy. Although the participation of civil society in local political government is not great so far, its «special role has to be recognised. Increasing the pressure and demand for reforms from within – among societies – would be the way to go. This is a long term process and it requires that reform-minded civil society groups work in partnership with the EU. Civil societies in the EaP countries still have to comprehend the role they are expected to play to transform their countries»²³. The bottom-up approach is undoubtedly a positive development but it should also originate from within the younger generations and stimulate a change of mentality. Only in this way can the EaP contribute to the establishment of more inclusive national governance.

In May 2011, following the Arab Spring uprising, the European Commission and the High Representative carried out a review of the ENP entitled *A new response to a changing Neighbourhood*, which also affects the EaP. At a first glance the review introduced a new rhetoric but in reality it reinforced the old conditionality and value-driven dynamics. For example, the EU set as its

²⁰ N. Shapovalova and I. Solonenko, *Is the EU's Eastern Partnership...*, cit., p. 5.

²¹ A new and ambitious European Neighbourhood Policy, MEMO/11/342, Bruxelles, 25 May 2011, p. 1.

²² *A new response to a changing Neighbourhood. A review of European Neighbourhood Policy*, Joint Communication by the High Representative of The Union for Foreign Affairs And Security Policy and the European Commission, Bruxelles, 25 May 2011, p. 4.

²³ N. Shapovalova and I. Solonenko, *Is the EU's Eastern Partnership...*, cit., p. 9.

objective to strengthen “deep and sustainable democracy” – a term which is not only ambiguous in its contents but also hardly fitting in the diversity of political culture in the six partner countries. It contemplated the so-called “more-for-more” approach or in other words more EU support and funds for those countries which demonstrate greater willingness to advance in their EU integration. In an interview, officials from the European Parliament pointed out that this was an essential adaptation and fine-tuning of the ENP to the new conditions in place in the eastern rim²⁴. Whereas the Eastern Partnership initiative aims to develop multilateral relations between the six partner countries, and between the partner countries as a group and the European Union, the more-for-more approach views bilateral relations between the EU and the individual partner countries as the most important. This is because it builds upon the expectation that the neighbouring countries will try to prove their true commitment to implement reforms. This approach also increases the degree of differentiation. Instead of a “one-size-fits-all” model, the EU is offering tailored models to each partner country’s needs, capabilities and ambitions. Therefore the more-for-more approach potentially leads to multi-speed integration²⁵ of the EaP countries in the EU. In this case, sector-based interest-driven integration without adopting EU values could be a solution for some countries that at present are not fully committed to the EU norms, either because EU offers are not relevant for them or because their national political culture has different roots from those of the EU. Furthermore, this new approach leaves local political leaderships free to weigh up their different political and economic options (for example, whether it is more expedient to side with the EU or with Russia, or to strike a balance between the two).

1.4. How Does the EaP Function?

The Eastern Partnership provides for a dual policy framework which combines a bilateral and a multilateral track. So far, the bilateral track is still contractually based on existing Partnership and cooperation agreements. This situation will change once Association Agreements, currently under negotiation with some EaP countries, enter into force. The bilateral track is also the main instrument for framing relations between the EU and the partner countries as it comprises key objectives and incentives for EU partner countries, such as:

- the upgrading of contractual relations towards to Association Agreements,

²⁴ Author’s interview with European Parliament officials from the Committee on Foreign Affairs, June 2012.

²⁵ Multispeed integration implies that those who wish to be committed and advance will be given that chance, while those who do not want this will not. Author’s interview with officials from the European Parliament Committee on Foreign Affairs, June 2012.

- the prospect of negotiations for deep and comprehensive free trade areas,
- capacity-building support to meet the requirements stemming from these agreements,
- progressive visa liberalisation in a secure environment,
- deeper cooperation to enhance energy security,
- support for economic and social policies designed to reduce disparities.

The EU also proposed much more intensive support for partners' reform efforts through a new multilateral dimension. Unlike the previous EU policies in the region which were predominantly based on bilateral ties, the multilateral track gathers all six eastern partners and the EU at various levels of representation and in different arenas (see its operational framework below). Its objectives are to complement the already existing bilateral track, facilitate the development of common positions and joint activities between local non-state actors, and foster links to address common challenges. It «provides a forum for sharing information on and experience of the partner countries' steps towards transition, reform and modernisation. It allows partners to benefit from an additional instrument to aid reform efforts and facilitate legal approximation»²⁶. As such it privileges greater socialisation, horizontal links and joint ownership of initiatives and policies, in sharp contrast to the bilateral track which follows a hierarchical principle of decision-making and transfer. «The EaP's multilateral track is an attempt to develop a multilayered and, to some extent, a pluricentric and participative institutional framework. The institutional framework is organised around several formats which all act as forums of discussion and contribute towards fulfilling the EaP's objectives»²⁷. In fact, the operational framework²⁸ of the multilateral track consists of four levels.

1. At the highest political level, EaP heads of state or government meet every two years. The Prague Summit in May 2009 officially launched the Eastern Partnership and the second summit was held in September 2011 in Warsaw. A Roadmap to the next EaP summit to be held in Vilnius in 2013 was published in May 2012. It «is intended to guide work in view of the next Summit [and] it is guided by the principles of joint ownership, differentiation and conditionality»²⁹. Hence the Roadmap outlines the mutually agreed objectives, the necessary policy steps to be taken by partner countries, and the support extended by the EU to achieve those steps and the expected outcome.

²⁶ *Eastern Partnership: A Roadmap to the autumn 2013 summit*, Joint communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, Bruxelles, 15 May 2012, p. 11.

²⁷ L. Delcour, *The institutional functioning of the Eastern Partnership:...*, cit., p. 7.

²⁸ *Eastern Partnership*, Communication from the Commission to the European Parliament and the Council, Bruxelles, 3 December 2008, COM(2008)823 final, p. 9.

²⁹ *Eastern Partnership: A Roadmap to the autumn 2013 summit...*, cit., p. 2.

2. Between these summits, policy guidance and monitoring are ensured through annual meetings of the Ministries of Foreign Affairs. Both Heads of State and Ministers of Foreign Affairs meetings are expected to move and shape the Eastern Partnership further.
3. At the technical level, four thematic platforms (coordinated by the European External Action Service and the European Commission) serve as multilateral fora for discussion and exchange of experience and complement the bilateral agenda between the EU and partner countries. The platforms are: a) Democracy, good governance and stability; b) Economic integration and convergence with EU policies; c) Energy security; d) Contacts between people. These platforms, the topics of which correspond to the main areas of EU-eastern neighbours cooperation, are presented by the European External Action Service as the backbone of the EaP multilateral track. For each thematic area, they meet at least twice a year at the level of senior officials and report back to the EaP Foreign Ministers. Third-party states are eligible for participation on a case-by-case basis for concrete projects, activities and meetings of the thematic platforms. This structure reflects mainly a top-down approach with political guidance and follow-up being provided at high-level meetings, on the basis of the information reported by the thematic platforms coordinators.
4. The last institutional level is formed by thematic panels which can be established under each platform with the aim of supporting their work. These panels gather together officials engaged in specific policy areas, and meetings on *ad hoc* basis allow for open discussion and exchange of experience between all participants on equal footing. To date, there are panels created under two platforms only: “Democracy, good governance and stability” (Integrated border management, Fight against corruption, Public administration reform, Migration and asylum, Improved functioning of the judiciary) and “Economic integration and convergence with EU policies” (Small and Medium Enterprises – SMEs, Trade and trade related regulatory approximation, Environment and climate change, Transport, and a panel on Labour market and social policies as well as one on Business to business contacts is under consideration). This reflects the importance of these platforms at a time when partner countries are negotiating Association Agreements and launching/conducting talks on Deep and comprehensive free trade areas. It is worth noting that the organisation of the panels is much more flexible than the platforms meetings are and the format is much more suited to eastern partners’ expectations in that it is tailor-made to their needs.

Besides establishing expert panels, the Eastern Partnership platforms have provided input to the design of five Flagship initiatives (Integrated border management; Regional electricity markets, energy efficiency and renewable energy; SMEs facility; Environmental governance; Prevention of, preparedness for, and response to natural and man-made disasters) which support concrete cooperation projects with the EU. The 2012-2013 EaP Roadmap states that the EU will reflect on possible new Flagship initiatives in the run up to the next Eastern Partnership Summit to be implemented from 2014 onwards³⁰. These initiatives have a «specific position under the EaP's multilateral track. Like other formats, they engage all Eastern partners with a view to provide visibility and focus on multilateral cooperation. Unlike other tools, they are, however, managed solely by the European Commission and mobilise multi-donor support»³¹.

The multilateral track also comprises some participatory initiatives such as:

- the Civil Society Forum (CSF) was established in 2009 to facilitate the involvement of Civil Society Organisations (CSOs) in implementing the Partnership. The Forum's strategy was adopted at its annual meeting in Poznan (November 2011) with the aim of helping target civil society contributions to the work of the EaP. It is organised around four working groups corresponding to the four thematic platforms above in which CSF representatives are permanent members. Each group is coordinated jointly by a EU and an EaP representative and includes a number of EU and EaP CSOs. In addition to these working groups, the CSF includes national platforms headed by country facilitators who coordinate activities related to a specific partner country and cooperate between themselves. The Civil Society Forum has been extremely active since the Eastern Partnership was launched, by acting as a catalyst in the dialogue between the EU and partner countries' CSOs and fostering an exchange of information for the purpose of adopting common positions. Besides providing a platform facilitating CSO cooperation, it also contributes to EaP implementation by drafting reports and opinions.
- The Euronest parliamentary assembly was established in May 2011 to support and promote the EaP and to provide a platform for parliamentary debate, control and review of all issues related to the EaP. «While the European parliament is also involved in the EaP through its committees and through bilateral delegations, Euronest is an unprecedented attempt to develop parliamentary cooperation with Eastern partners at a multilateral level. The idea of setting up an assembly gathering EU and eastern partner countries originates in the European parliament's experience and practice of such assemblies

³⁰ *Eastern Partnership: A Roadmap to the autumn 2013 summit...*, cit., p. 11.

³¹ L. Delcour, *The institutional functioning of the Eastern Partnership...*, cit., p. 12.

with other regions, for example EUROMED, EUROLAT and EU-ACP assemblies»³². Its first ordinary session was held in September 2011 (only Belarusian representatives did not take part in Euronest due to the problematic relationship with President Lukashenka's political regime), while the second session took place in April 2012 in Baku.

- The Conference of Regional and Local Authorities of the Eastern Partnership (CORLEAP): in 2008 the European Commission invited the Committee of the Regions to establish an Eastern Europe and South Caucasus Local and Regional Assembly. However, like Euronest, the setting-up of this assembly has been delayed due to a number of reasons, among which administrative factors feature prominently (insufficient human resources dedicated to this task within the Committee of the Regions). Hence the inauguration of CORLEAP took place in Poznan only in September 2011. It has laid the foundations for a regional dimension of the EaP for the purpose of facilitating local and regional authorities' contribution to EaP development, including through increased funding for projects strengthening local democracy. Considering the delay in setting up the Conference it is still too early to assess whether it will become a centre of cooperation between regional and local authorities from the EU and Eastern Partnership countries. In addition to CORLEAP, the Committee of the Regions is involved in other EaP formats and activities. For example, it issues opinions on EaP bilateral developments, while with regard to the multilateral track, it is a permanent member of thematic platforms 1 and 4 and intends to apply for platforms 2 and 3.
- The Eastern Partnership Business Forum was held for the first time in September 2011 as an event accompanying the official Eastern Partnership Summit. The Forum's objective is to provide a platform for experience sharing, establishing business contacts and discussing investment opportunities and joint projects implemented by entrepreneurs and governments.
- In December 2011 the Council of Ministers of the EU agreed on the main principles for the establishment of a European Endowment for Democracy (EED). However, no clear concept describing the organisation, its funding and priority areas has been presented yet as there are several competing ideas about it. Nevertheless, scholars and EU officials agree that the EED should be an autonomous body whose functioning should avoid duplicating already existing organisations.

There are also initiatives which foster horizontal cooperation through:

³² *Ibidem*, p. 14.

- Informal EaP Dialogues between the Foreign Ministers of the partner countries and the EU's High Representative/Vice President and Commissioner for Neighbourhood Policy. They provide an opportunity for ministerial-level informal discussions on developments in partner countries and progress on reform processes, and allow monitoring of the implementation of the EaP Roadmap. Within their framework, informal dialogue sessions between the relevant sectoral Ministers and EU commissioners could take place on multilateral sector cooperation. The first meeting was held in June 2012 and laid the foundations for a new format of consultations for the further development of political and sector cooperation between the EU and its partners.
- Development of an EaP visibility strategy that may advance its principles and objectives among ordinary people.
- Information exchange and donor cooperation that brings together donor countries, regional players and international financing institutions.

1.5. Financial Resources

To address the new cooperation needs linked to the Eastern Partnership, the EU has earmarked specific funding for the 2010-2013 period worth €350 million, adding it to the already existing funds for the six partner countries within the framework of the European Neighbourhood and Partnership Instrument (the EU financial instrument supporting the implementation of the Neighbourhood Policy). This brings the total financial resources to implementation of the Neighbourhood Policy on the EU eastern rim up to about €1.9 billion. These additional means aim to support three initiatives.

1. Within the bilateral track – the Comprehensive Institution Building Programme (CIB) and Pilot Regional Development Programmes (PRDPs) modelled by the EU cohesion policy. The CIB objective is to strengthen the capacities of those core institutions that are instrumental in the preparation process for the Association Agreements and the setting up of Deep and comprehensive free trade areas. Approximately €173 mln are dedicated to the implementation of the CIB over 2011-13 in the six Eastern partners. The PRDPs help partner countries to address important structural problems. Economic and social disparities among regions and population groups, often divided by historical, cultural, ethnic and religious differences, represent a major obstacle to economic development at the national level. Through these programmes partner countries are expected to be able to develop and support regional development strategies aimed at reducing dis-

parities. Approximately €75 mln are dedicated to the implementation of PRDPs over the 2012-2013 period.

2. Within the multilateral track – the five Flagship initiatives are supported through regional projects in the framework of the Regional East Programme 2010-2013 as follows:

- 2.1 Integrated Border Management Flagship initiative: €44 mln.

- 2.2 Small and Medium-size Enterprises Flagship initiative: three EU funded projects are currently running to support of this initiative:

- East-Invest, an investment and trade facilitation project for the economic development of the Eastern Partnership region, to which the EU is contributing with a budget of €7 mln. It provides technical assistance to business support organisations and SMEs from the six EaP countries which have the potential for developing mutual cooperation and attracting EU investments;
- Turn Around Management and Business Advisory Services (TAM-BAS), a tailored technical assistance programme implemented by the European Bank for Reconstruction and Development and funded entirely by the EU with a budget of €5 mln. Supplementary funding of €5 mln was added in 2011. Under TAM-BAS up to 600 small and medium enterprises receive tailored technical assistance aimed at supporting sustainable development of the SME sector in the EaP countries and building a competitive infrastructure of local advisory services;
- SMEs Funding Facility Project has resources of €15 mln provided by the EU as a risk-sharing cushion to leverage loans for SMEs granted by European financial institutions. Including the above, over €50 mln will be made available to support this Flagship Initiative until 2013.

- 2.3 Regional Electricity Markets, Energy Efficiency and Renewable Energy Sources Flagship initiative: regional energy cooperation in EaP countries is supported through the INOGATE programme. Energy security and diversification of supplies cannot be seen in isolation and the INOGATE programme also links the EaP region to Central Asia. The 2010-2011 INOGATE programme included approximately €32 mln in projects concerning regional energy markets and the objectives of the EaP Energy Flagship in particular (for example energy regulation, harmonisation of standards and legislation, but also activities for renewable energy and energy efficiency in the building sector).

- 2.4 Prevention, Preparedness and Response to natural and man-made Disasters Flagship initiative (PPRD-East): its first phase, already under implementation with a budget of €6 mln, reviews the existing resources and available mechanisms working on disaster prevention, preparedness and response in EaP countries and prepares an Electronic Regional Risk Atlas. A second phase, with a similar budget, is foreseen before 2013.
- 2.5 Environmental Governance Flagship initiative: the focus is on strengthening the capacities to reduce environmental risks and pollution, and promote more sustainable use of natural resources by improving institutional capabilities, ensuring access to environmental information, involving relevant stakeholders in environmental management and decision-making, on reporting, and on conducting Environmental Impact Assessments and Strategic Environmental Assessments. A total of €32 mln is foreseen to support of this Flagship until 2013.
3. Other EaP multilateral initiatives:
 - 3.1 Council of Europe Facility: the Council of Europe (CoE) is a key partner in promoting democracy and good governance values in the EaP region. The EU and CoE have thus launched a €4 mln Facility to promote approximation with the CoE and EU standards in core areas covered by the EaP, most notably functioning of the judiciary, public administration reform, supporting electoral standards, fight against cybercrime and corruption, and human rights protection.
 - 3.2 Eastern Partnership Culture programme: this €12 mln worth programme aims at assisting eastern partners in their cultural policy reform at governmental level as well as their capacity building, and at improving the professionalism of cultural operators in the region. It provides both technical assistance to address specific priority needs of public institutions and the region's cultural sector, and grants to civil society cultural organisations – profit and non-profit – as well as national and local institutions for regional cooperation projects.

In addition to the €1.9 bln funds stated above, the 2012-2013 EaP Roadmap foresees extra financial resources under the more-for-more principle. A new programme called EaPIC (Eastern Partnership Integration and Cooperation) is being set up with an indicative allocation of €130 mln for the 2012-2013 period. The programme will address two of the three priority areas defined in the ENP Review Joint Communication: democratic transformation and institution building, and sustainable and inclusive growth and economic development. Support for partnership with people will be available to target

countries regardless of their governments' commitment to and progress in the reform process; therefore, it does not come under the incentive-based rationale of EaPIC. Assistance related to partnership with people – focused on civil society and student mobility – will be delivered instead through a number of tailored instruments, including the newly established Neighbourhood Civil Society Facility.

1.6. The Eastern Partnership's Shortcomings

The EaP tried to correct some of the ENP's deficiencies and introduced some positive novelties. Among the strengths of the EU Eastern dimension policy we can list the advancement of mobility (visa issue), talks on deep and comprehensive free trade areas (access to the EU market) and trade, people-to-people contacts, and financial resources made available despite the economic and euro crisis. However, broadly speaking one can agree that so far «the results of the EaP can be seen rather as launching processes than solid achievements»³³. Below I have identified three clusters of shortcomings that have constrained the policy in its impact and progress.

The first regards deficiencies of the EaP that reiterate some aspects of the ENP approach. For example, the EaP does not foresee a membership prospect. The EU is «keeping the Eastern partners at arm's length, close enough to the EU to avoid them drifting away from Europe, but sufficiently distant that they do not become members of the EU»³⁴. The conditionality approach persists as well as the related “reward” thinking. The more-for-more logic strengthening bilateral relations clashes with the multilateral cooperation promoted under the EaP and hinders the overall progress of EU regional policy. Additionally, due to insufficient knowledge of the region and of single countries, sometimes the EU's offers do not match EaP countries' expectations. Two parallel monologues are conducted without a real dialogue and progress³⁵. Such contradictions constrain the EaP's innovative potential within ENP limits.

Both the ENP and the EaP bilateral track perpetuate an unequal partnership where partner countries have little or no say in determining their obligations («the demands put forward by the neighbouring countries themselves are largely absent and the EU makes few concrete commitments»³⁶). This fact reinforces the feeling among EaP countries that the EU is “lecturing” them. The aversion

³³ G. Gromadzki, *Where is the Eastern Partnership in 2011, and to what extent has it achieved its aims/made progress towards achieving its aims?*, in *A strategic roadmap for civil society in the Eastern Partnership...*, cit.

³⁴ P.M. Jensen, *The Eastern Partnership and the Danish EU presidency: Caught between realism and disillusion*, April 2012, <http://www.easternpartnership.org/publication/politics/2012-04-11/eastern-partnership-and-danish-eu-presidency-caught-between-realism->.

³⁵ Author's interview with officials from the EU External Action Service, June 2012.

³⁶ T. Casier, *The European Neighbourhood Policy...*, cit., p. 105.

to accepting EU “lecturing” can be partly explained by the need to preserve national independence and sovereignty. Since 1991, these states have always opposed the idea of relinquishing even part of their sovereignty to a supranational body in the region (see for instance Russia’s failure to engage these countries actively in regional organisations). Therefore one may question whether they are ready and willing at all to do so with the EU, whose rationale is based precisely on this principle.

Many scholars agree that both the ENP and the EaP have exhausted their conceptual and political potential and there is a need to re-think the whole EU policy, given its inability to prompt reforms. They affirm that the EU is not capable of offering to its Eastern neighbours more than what it has already offered. But EU officials differ from scholars in their views on this issue³⁷. Some believe that the EaP should not be corrected because its contents are already properly formulated. Others disagree, defining it as a simple re-branding (or re-packaging) of the ENP and expect that in the near future the EU will do some concessions to the most advanced and reform-minded countries so as to re-set the whole regional policy and its regional image. Nevertheless they all concur that a key factor for the success of the policy is the objectives of national governments, so their willingness to implement reforms. Interestingly enough, some officials even claim that the EU has actually benevolently accepted the reform-averse behaviour of some EaP countries and has adapted its position accordingly through the more-for-more approach³⁸.

Finally, both in the ENP and the EaP, the «EU has not developed benchmarks to measure democratisation processes... there is no democracy acquis. While the EU has relied mainly on the Council of Europe and OSCE assessments and recommendations, it has failed to offer closer guidance to the EaP countries on democratic reform. The ENP Communication of May 2011 tried to address this problem by outlining a concept of “deep democracy” that includes core political rights, freedom of association, expression and assembly, and the right to a fair trial»³⁹. This fact leaves both parties, the EU and its eastern neighbours, free to define the conditions and the extent of compliance and engagement without being constrained to adhere to rigid schemes which would set expectations too high. However, this circumstance is detrimental to the EU and its regional political leverage. Democracy and its components become an instrument of political convenience and rhetoric rather than of real transformation.

The second cluster deals with deficiencies regarding the EaP itself. For example, for obvious reasons the EU’s eastern dimension was developed by EU Member States that are geographically, historically and culturally close to

³⁷ Author’s interviews with officials from the Council of the European Union, European Parliament and the EU External Action Service, June 2012.

³⁸ Author’s interview with European Parliament officials from the Committee on Foreign Affairs, June 2012.

³⁹ N. Shapovalova and I. Solonenko, *Is the EU’s Eastern Partnership...*, cit., pp. 4-5.

their eastern neighbors. However, «the Eastern Partnership is an ambitious policy which raises major questions about the whole EU's future and thus requires the participation from a wide range of Member States. Therefore, it is now time to seek a greater involvement from those Western EU Member States who, owing to the lack of traditional links with the eastern neighborhood, initially displayed little interest for the EaP»⁴⁰.

In relation to the bilateral track, there is a temporal and interest mismatch between what the EU offers and its timing, and what national political elites are interested in. For instance, the EU's incentives (mobility, trade and investment) and political rapprochement are long-term in nature and often entail high social and political costs in the short run. In contrast, local elites are driven mainly by short-term private economic interests and benefits and try to elude long-term commitments. Also, there is no coordination between the bilateral and the multilateral tracks which creates two disconnected spheres of communication and engagement.

EU officials point to the fact that the more-for-more approach is actually not compensated by a less-for-less approach, which means that Brussels does not take the money away from those countries that do not perform well. This weakens the credibility of the policy and allows target countries to have opportunistic behaviour. In general, more-for-more or less-for-less recall a political slogan more than a clearly defined policy. According to them, the same holds true for the definition of concepts like “deep and sustainable democracy” which were introduced in the review of the ENP policy in 2011.

Thirdly, there are also setbacks related to organisational inadequacies. EU officials have raised the issue of differences between the involvement of the EU External Action Service and the European Commission, which ultimately creates uncoordinated commitment by the EU⁴¹. They have also underlined a general communication problem of EU units which are understaffed with regard to officials fluent in the languages spoken in the EaP countries and especially in Russian, which can be considered a common language for communication with the eastern neighbours. Those who do speak Russian are nationals of countries harboring historically rooted sentiments of hostility towards Russia (for example Estonia, Poland) and hence they design the EU regional policy contents in a biased and anti-Russian fashion fueling zero-sum game dynamics.

A fourth challenge to the EaP (rather than shortcoming of it) is Russia. «The EU-Russia relationship has been struggling for twenty years to find a comfortable equilibrium point, without really succeeding, but without disastrous conflict

⁴⁰ L. Delcour, *The institutional functioning of the Eastern Partnership*..., cit., p. 13.

⁴¹ Author's interviews with officials from the Council of the European Union and the EU External Action Service, June 2012.

either»⁴². Moscow disapproved the EaP from the very beginning and that attitude was reinforced by the fact that it was Poland that promoted the policy. Its main concern is that the EaP will threaten the relationship between Moscow and the EaP states. Several considerations should thus be taken into account regarding Russia's role in the region and EU policy and its understanding of that role. First, it is symptomatic that contrary to the EU narrative that refers to the EaP countries as the "common neighbourhood with Russia", the latter treats that region as its "own" neighbourhood (the "near abroad" or "the post-Soviet space" are both terms that exclude the presence of external actors). Second, visions clash because the EU is an integration pole in the region to the same extent as Russia. Therefore the only way to avoid zero-sum game logic is to cooperate and be involved in common pragmatic and interest-driven projects. Third, dealing with Russia is still hampered by the differing attitudes to Moscow of western and central and eastern EU Member States (for instance, some CEE countries claim that the post-Soviet space should be integrated into the EU in order not to lose it to Russia's regional projects). Fourth, some EaP countries see the EU not so much as a regional pole of gravity but more as a guarantor against Russia's policy, emphasising the political aspect of the relationship with Brussels. Indeed compared to Russia's assertiveness (coupled with the burden of the Soviet past), the EU is not viewed as a threat and is considered a benign regional power. However, it is not advantageous for the EU as a whole to oppose Russia for the sake of defending bilateral relations with a single EaP country.

Concluding Remarks

The EU should not compromise on its fundamental democratic values as a prerequisite for support and deeper cooperation with its eastern neighbours but should strike a realistic balance between those normative standards and achievable goals, both for the EU itself and for partner countries. For example, given the current political and economic circumstances within the EU, it is unlikely that the eastern partners will obtain membership prospects in the short to medium term (EU interviewees referred to a 10 to 40 year period before any of the EaP countries may be deemed ready to become a fully-fledged EU members). Therefore, it is pointless to continue formulating EU policies based on the logic of reward (with membership being that reward). The latter did not lead to the aspired transformations. The EU should also avoid taking radical positions in EaP countries' domestic debates, as this will make integration more difficult and will excessively politicize bilateral relations (sometimes

⁴² M. Emerson, *Just good friends?...*, cit., p. 53.

even isolating the country). If EU statements fuel polarisation within a country by shaking domestic balances, they may lead to instability, disorders and non-governability, which Brussels is not able to control.

On the contrary, the EU's second chance to influence developments on its eastern rim should focus (as the EaP partly started implementing) on attempts to establish a pragmatic and durable dialogue with all local stakeholders in order to strengthen confidence-building and familiarise the EU with national peculiarities. The EU should improve its image as an attractive regional pole of stability, and stress that more while putting less stress on top-down imposed transformation. For that purpose the sector-based cooperation and multilateral track of the EaP policy seem promising tools, although they should be further streamlined, better coordinated and strengthened. In particular, the EU should offer a change of mindset in partner countries through its initiatives and socialisation in order to stimulate, broadly speaking, a new political generation and culture both in the population and in the ruling elites. Such a process of rapprochement was missing under the ENP (as deemed already existent) but should be supported under the EaP as the basis for future democratisation and possibly shared values. In other words, the EU should reverse its perspective on the EaP region; it should not impose or export its norms, but acquire greater understanding and instruments for dialogue which will help both parties to converge towards common goals that are much broader and more comprehensive than short-term economic cooperation. Finally, the EU should conceive a strategy for regional cooperation and integration, as neither the ENP nor the EaP constitute strategies⁴³ but simply policies exposed to internal and external intervening factors which ultimately weaken their impact and conceptual framework.

⁴³ Author's interview with officials from the EU External Action Service, June 2012.

2. EU Energy Security Policies and Azerbaijan

Carlo Frappi

Introduction

One of the most important features that characterized and accompanied the advent of the post-bipolar system was the progressive loss of meaning of the concept of “security”, as it was conceived in the Cold War period. In the post-bipolar system, threats to the actors of the international community – be they states, individuals or groups of individuals – indeed seem to no longer come primarily from the military sphere, at least not in the classic conception of the risk of armed conflict between sovereign states. Therefore, since the early years following the end of the Cold War, reinterpretation of the concept of security has become a central feature in the strategic studies literature. Against this background, in parallel the traditional “strategic” connotation of the concept of security has gone from an interpretation now encompassing “enlarged” which includes the new threats of economic, environmental and Social Committee¹. A new and “enlarged” conception of security – encompassing threats of an economic, environmental and social nature – has emerged alongside the traditional “strategic” connotation of security. Very different in their contents, the two conceptions of security also vary in relation to the mechanisms of protection from the threats – which change in form, depth of action and interlocutors. Indeed, the need to defend against threats of an economic, environmental and social nature entails more technical tools, carried out to an increasing ex-

¹ On the evolution of the debate around the concept of security, see A. Aldis and G. Herd, *Managing Soft Security Threats: Current Progress and Future Prospects*, «European Security», Vol. 13, No. 1, 2004, pp. 169-186; J. Lindley-French, *The Revolution in Security Affairs: Hard and Soft Security Dynamics in the 21st Century*, «European Security», Vol. 13, No. 1, 2004, pp. 1-15.

tent at the local and regional level and, more often than not, in relation to non-state actors².

Since the beginning of the '90, the debate on the enlargement of the security concept has involved all key international organizations and intergovernmental cooperation mechanisms, each of which, within the perspective of adaptation to the new realities of the international system, gave different responses, creating new mechanisms for cooperation or, rather, adapting the existing ones. Within the European Union, debate and regulatory action aimed at adaptation to new threats to the security of Member States and their citizens, gradually focused on economic security and, in particular, on the closely related energy security, here understood to be «a condition in which a nation and all, or most of its citizens and business have access to sufficient energy resources at reasonable prices for the foreseeable future free from serious risk of major disruption of service»³.

If, therefore, the concept of energy security revolves around the need for an *adequate supply of resources at reasonable prices*, different factors come into play in determining what is concretely meant by energy security and how to effectively pursue a strategy aimed at its protection. First of all, as Stern suggests⁴, we must distinguish between the need to ensure the availability of “short-term supply” – which takes into account technical and contingent issues – and the goal of ensuring “long-term supply”. Under the latter perspective – taken up in this study, strategic factors of a political and infrastructural nature come into play, which pertain in the first instance to relations between the EU and energy producing and supplying states.

A further distinction concerns the nature of the policies aimed at safeguarding energy security. Indeed, security measures may be alternately placed in relation to energy demand, or rather to its supply⁵. Acting on energy demand entails technical protection mechanisms primarily linked to the rationalization and regulation of the internal energy market which, alone, seem insufficient to eliminate the risks associated with over-dependence on energy imports – the main threat to energy security. This essay will hence focus on the protection mechanisms acting on the supply side that is the “external” dimension of energy security policies, which call into question the need for the Union to deal with third-party countries to ensure access to resources and their tran-

² See K. Becher and H. Schmidt, *Soft security with Russia after 11 September*, «Russian Regional Perspectives Journal», Vol. 1, No. 1.

³ G. Bahgat, *Europe's energy security: Challenges and Opportunities*, «International Affairs», Vol. 82, No. 5, p. 965. In the same sense, S. Haghighi, *Energy Security: The External Legal Relations of the European Union with Major Oil and Gas Supplying Countries*, Oxford, Hart Publishing, 2007, p. 14.

⁴ J. Stern, *Security of European Gas Supplies: The Impact of Import Dependence and Liberalization*, London, Royal Institute of International Affairs, 2002, p. 6.

⁵ S. Haghighi, *Energy Security...*, cit., p. 16.

sport. A corollary of this approach is, therefore, a special emphasis on the political – rather than economic – nature of energy security policies⁶.

Based on the reconstruction of the process that led to the formulation of the concept of European energy security – in its long-term and external dimensions – the aim of this paper is to analyze the role that the Caspian basin in general, and Azerbaijan in particular, came to play in such a construction in the increasingly urgent perspective of diversifying EU energy suppliers and supply routes.

2.1. EU Energy Vulnerabilities: Rising Demand, Declining Production, Concentration of Suppliers

The European Union is the world's third largest energy consumer after China and the United States. Although the post-2008 economic downturn has had a negative impact on primary energy demand, the EU Member States' need for energy is estimated to grow at an average annual rate of 0.2 per cent until 2035, reaching the equivalent of 1,731 million tonnes of oil⁷. Along with the growth in demand, the decline in domestic production will result in a deepening of dependency on fossil fuel imports. The increasing dependency on imports is particularly evident in the case of natural gas, for which demand is set to grow proportionally more than demand for other primary sources. Indeed, while oil demand will slowly decline over the above-mentioned timeframe⁸, the steadier decline in coal and nuclear consumption – prompted by EU environmental and energy-efficiency concerns and regulations – will be compensated primarily by the increasing use of natural gas and renewable energy sources.

With a projected 30 per cent share of the energy mix, by 2035 natural gas is set to become the first primary energy source consumed in EU Member States. Between 2010 and 2035 annual gas consumption will rise from 547 to 594 billion cubic meters (bcm). In the same timeframe, however, domestic gas production is expected to fall from 201 to 84 bcm/y, increasing the rate of EU dependency on imports from the current 63 per cent to 86 per cent. Only the development of EU indigenous unconventional gas deposits might partially reduce the growth in imports, potentially reducing the rate of dependency on imports to 74 per cent. Anyhow, under both scenarios the EU will need a sub-

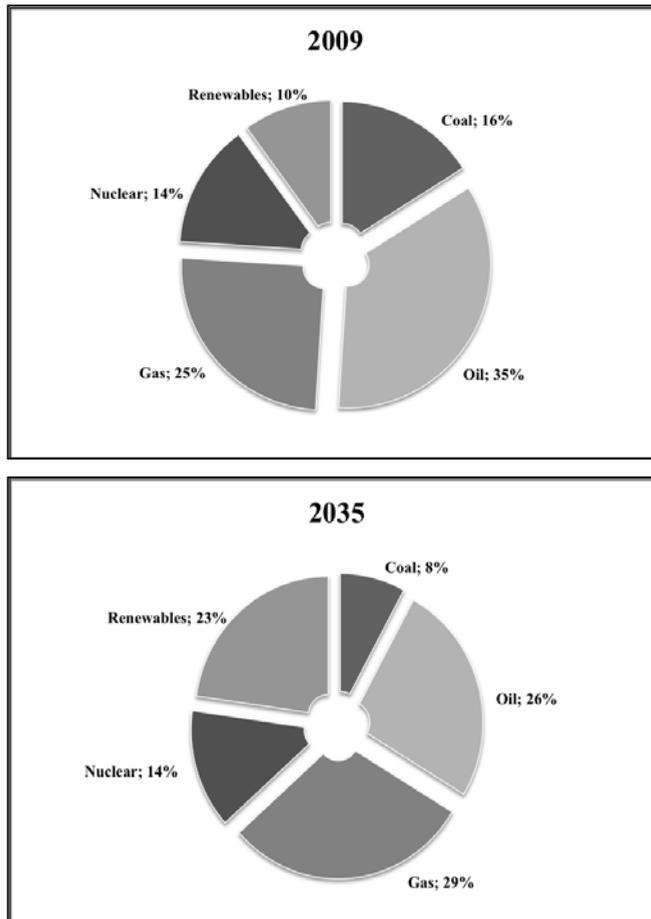
⁶ In this, the study follows the approach of Luciani, who emphasizes the central role that diplomacy has played in the past – and will continue to play in the future – in ensuring security of energy supply for international actors. G. Luciani, *Security of Supply for Natural Gas Markets: What is it and what is it not*, INDES Working Paper No. 2, 2004, p. 6. As for the internal and economic perspective of analysis on European energy security, C. Egenhofer and T. Law, *Security of Energy Supply: A Question for Policy or the Market*, Brussels, Centre for European Policy Studies, 2002.

⁷ International Energy Agency, *World Energy Outlook 2011*, OECD/IEA, Paris, 2011, p. 81.

⁸ EU demand for oil will decrease between 2010 and 2035 from 11.9 to 9.3 million barrels per day. *Ibidem*, p. 107.

stantial increase in gas import volumes, ranging from 134 to 164 bcm compared with the 2010 level⁹. A different trend is foreseen in the EU oil sector. Here, notwithstanding the decline in indigenous production, after 2020 the contraction in EU oil demand is set to reduce imports from 9.8 million barrels per day (mb/d) to 8.8 mb/d in 2035¹⁰.

Figure 2.1. EU energy mix (2009 and 2035)



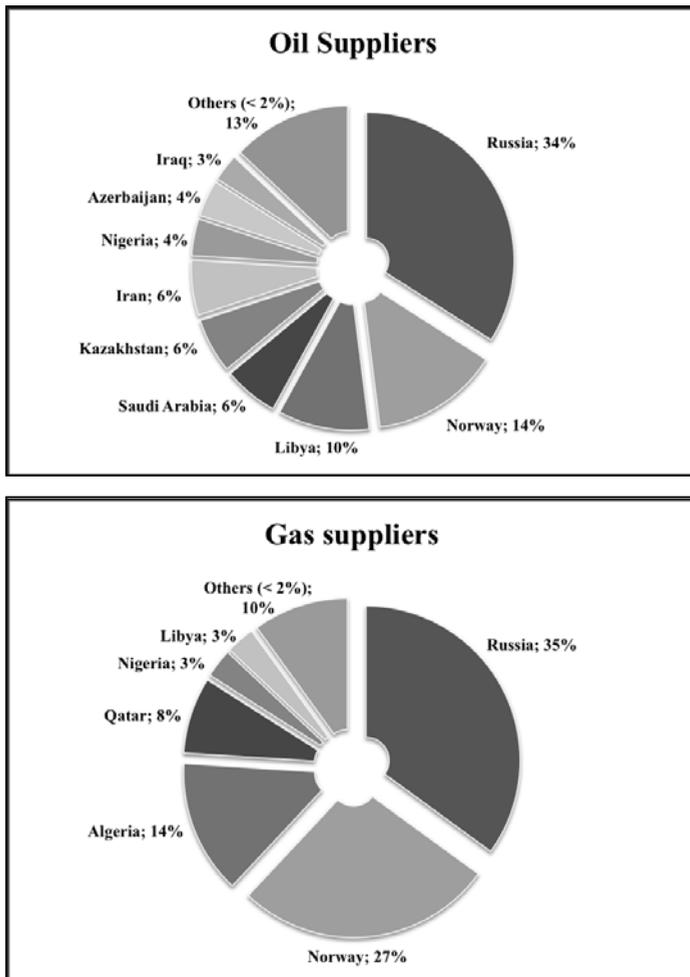
Dependency on external suppliers of fossil fuels does not in itself pose a threat to energy security, at least not as long as the consumer party has access to a sufficiently stable and diversified supply network. This is not, however,

⁹ International Energy Agency, *Golden Rules for a Golden Age of Gas*, OECD/IEA, Paris, 2012 p. 129.

¹⁰ International Energy Agency, *World Energy Outlook...*, cit., p. 92.

the case for the European Union, whose import network seems to be neither diversified nor stable enough, threatening to turn its energy dependence into a source of vulnerability. Indeed, 58 per cent and 76 per cent of the EU oil and gas supply respectively is provided by just three major producers, and – as perfectly shown by the Arab Spring – the producing areas are plagued by cyclic instability, thus threatening the stability of supply.

Figure 2.2. EU oil and gas imports (2010)



The relationship between import dependency and energy insecurity is especially true with regard to gas, due to the peculiarities of its market and against the backdrop of the growing “strategicity” of EU gas use¹¹. Unlike the oil market, which is global and includes many operators and producers competing with each other, the natural gas market is fragmented on a regional scale and with less competition, both on the demand and the supply side. Behind this difference lies primarily infrastructural data. Unlike oil, which can be transported by rail or by sea, gas necessitates piping and has a transport process that is “rigid” by definition. This means that – unlike oil and despite the growth of the gas spot market and European continental trading hubs – gas exchanges are largely based on bilateral contracts that bind buyers and sellers in the long term (usually 20-25 years) and are generally accompanied by take-or-pay clauses. Furthermore, a similar trend also occurs in the case of trade in LNG, a potentially more flexible source which producers prefer to manage through long-term contracts, similar to those utilized for pipelines. Thus, if an interruption of supply from an oil producer can be replaced through the international markets – as demonstrated by the recent Libyan crisis – in the case of gas such substitutability does not exist. The rigidity of the gas market hence obliges consumer countries to apply a more forward-looking strategic policy for planning and investment, with a view to securing a sufficiently stable and diversified supply network. In addition, such strategic planning is not confined to the economic sphere. Tying together producers and consumers over the long-term, the gas market normally requires a wider entente between the two sides, which entails a higher degree of political entente and consequently a greater role for policy makers and so-called energy diplomacy. This consideration is all the more urgent since the distance between gas producing and marketing areas often requires the involvement of transit states.

From the EU perspective, the rigidity of the gas market has another relevant implication related to its Member States’ different degrees of dependency on imports and their different degrees of diversification. Indeed, due to both geographical and historical reasons the Central and Eastern European Member States rely heavily on gas imports from the Russian energy champion

¹¹ The increasing strategic role of gas use in the EU is primarily linked to its growing share of power generation. According to the latest Eurogas data, the share of gas in electricity production increased from 8.5% in 1990 to 23.1% in 2009, contrary to the other traditional energy sources whose share declined in the same timeframe (coal from 39% to 25.3%, nuclear from 30.5% to 27.5%, oil from 8.5% to 2.9%). Moreover, due to the foreseeable reduction in nuclear energy use and to EU policies aimed at decarbonisation in power generation – in line with the European Union Emissions Trading System – the share of gas will steadily rise in the mid and long term periods. Eurogas, *Gross electricity production by fuel, EU-27*, web database, <http://epp.eurostat.ec.europa.eu/portal/page/portal/energy/data/database>; As for the “key role” of gas in EU energy policies, see European Commission, *Energy roadmap 2050*, Publications Office of the European Union, Luxembourg, 2012, p. 12.

Gazprom¹², which they perceive as an unreliable supplier – if not a threat¹³ – due to its closeness to the Kremlin and its role in Russian foreign policy planning. Such a perception has been reinforced in recent years by the aggressive energy policy Moscow has implemented *vis-à-vis* energy transit states such as Belarus and Ukraine, which has resulted in the cutoff of gas deliveries and hence in disruption of supply to those Central and Western European states whose supply network transits through their territory. The “gas-crisis” – the worst of which occurred in 2006 and 2009 – contributed to highlighting two dangerous sources of vulnerability for EU energy security. First and foremost, the crisis openly showed the risks arising from excessive dependence on a single supplier, Russia, for a vital energy resource such as gas. Moreover, by deepening suspicions about Russia’s reliability as a fair energy supplier¹⁴, the crisis showed that discrepancies in dependence on gas imports in general and Russian supplies in particular generate a deep gap in perceptions among EU Member States, which threatens to undermine the very foundation of European integration itself that is intra-EU solidarity.

Hence, the growing share of gas in the EU energy mix, the rigidity of its market, higher concentration of suppliers, and instability of the external producing areas, as well as the alleged political use of energy leverage, give gas high strategic stakes, making diversification of suppliers and supply routes an absolute priority with a view to safeguarding the Union’s energy security.

2.2. The Evolution of the EU Energy Security Concept

Notwithstanding the central role played by energy cooperation in the foundation of the European integration process – historically seen as a tool for ensuring peace in the continent and raising the living standards of its citizens – the EU is largely unprepared to face twenty-first century energy security challenges. First and foremost, the lack of a common energy policy was the result of the reluctance of its Member States to devolve sovereign prerogatives in a

¹² Although the following data have to be weighted with the relative quotas enjoyed by natural gas in each country’s energy mix, in 2011 supplies from Russia accounted for 100% of gas imports in the Baltic Republics, Bulgaria, Romania and Slovakia, 85.7% in Poland, 84.5% in Hungary and 78.7% of Greece’s gas imports. Bp, *BP Statistical Review of World Energy*, June 2012, web edition, www.bp.com/statisticalreview.

¹³ A case in point is, for example, Poland whose traditional mistrust of Kremlin policies translated into the raising of dependence on Russian gas supplies to the most significant national security risk in the 2007 National Security Strategy. See, *National Security Strategy of the Republic of Poland*, Warsaw, 2007, web edition, <http://merln.ndu.edu/whitepapers/Poland-2007-eng.pdf>, (last retrieved on 30 August 2012).

¹⁴ It is worth noting that the perception of Russia exploiting its supplier position as a political tool is also shared by EU institutions. Referring to the gas crisis, the Economic and Social Committee stressed the «realization [they stirred up] that Europe’s energy dependency was not only of huge economic significance, but above all, that the supply of energy could readily be used as a weapon for exerting political pressure». *Opinion of the European Economic and Social Committee on “Energy supply: what kind of neighbourhood policy do we need to ensure security of supply for the EU”*, «Official Journal of the European Union», C132, 3 May 2011, p. 15.

sphere, such as energy, traditionally considered to have high strategic value¹⁵. Hence, despite energy dependence being already recognized as a threat to the fundamental objectives of the Community¹⁶, EU legislation kept focusing its energy policy on the creation of an efficient internal market, on the assumption that this would have helped to eradicate the problem of external dependence¹⁷.

Following the silence of the Treaties of Maastricht (1993), Amsterdam (1997) and Nice (2000) on means to ensure adequate levels of energy supply, the principles of energy security protection from the outside and through common action have emerged gradually, thanks to the proactive role played by the European Commission (EC) and since the November 2000 publication of the Green Paper *Towards a European strategy for the security of energy supply*¹⁸. Here for the first time, the EC placed emphasis on the Union's structural weaknesses, envisaging the need to adopt an active energy policy capable of freeing the Union from its increasing energy dependency. Moreover, moving toward a different understanding of energy security policies, the Green Book put forward the need to conceive energy policy from an angle other than that of the internal market, harmonization, environment or taxation, questioning the efficacy of a purely economic approach to the problem of external dependence and wondering if a "geopolitical" approach was not preferable for tackling it¹⁹.

Included in the 2003 EU Security Strategy as one of the global challenges of special concern for Europe²⁰, the energy security issue quickly rose to the top of the EU policymakers' agenda mainly due to the first gas supply disruptions caused by the allegedly politically-motivated crisis between Russia

¹⁵ The EU Member States' position reflects the wider debate, among economists, on the most appropriate means to ensure the efficiency of the energy market. On the one hand is the position of those who maintain the need to provide the Union with the necessary regulatory tools to pursue a coherent energy strategy – a position based on the consideration of the states' growing interdependence and on the impact of policy choices of one of them on the others. On the other hand lies the vision of those who advocate a priority role of the states, which by knowing the dynamics of their markets better, can more effectively ensure their own energy security needs. This debate occurs in the broader context of the dichotomy between supporters of a liberal approach to the European energy issue – based on confidence in the self-regulation capability of the markets – and supporters of decisive intervention by the EU institutions. Driven by geostrategic rather than economic considerations, the latter view is aimed on the one hand at counteracting the policies of the EU's competitors and on the other hand at bridling energy companies' freedom of action, which may prove to be counterproductive to the interests of the Union. As for the "liberal" view, see C. Egenhofer and T. Legge, *Security of Energy Supply*, cit.; as for the "geostrategic" view, A. Correlje and C. Van der Linde, *Energy supply security and geopolitics: A European perspective*, «Energy Policy», Vol. 34, 2006, pp. 532-543.

¹⁶ See, for example, Council of the European Union, *New Community Energy Policy Objectives for 1995 and Convergence of the Policies of the Member States*, «Official Journal of the European Union», C/241/1, 16 September 1986.

¹⁷ S. Haghghi, *Energy Security...*, cit., p. 63. For a panorama of the "internal" projection of EU energy policy and the lack of its connection with "external" measures, see *ibidem*, pp. 103-186.

¹⁸ Commission of the European Communities, *Towards a European strategy for the security of energy supply*, COM(2000) 769 final, 29 November 2000.

¹⁹ *Ibidem*, pp. 4 and 13.

²⁰ Council of the European Union, *A secure Europe in a better world – European Security Strategy*, Bruxelles, 12 December 2003, web edition, www.consilium.europa.eu/uedocs/cmsUpload/78367.pdf (last retrieved on 30 August 2012), p. 3.

and the Eastern European transit states. Moreover, adding urgency to the need to tackle the energy security issue, the 2004 enlargement – as would be the case for the 2007 one – deepened EU energy dependency in general and gas dependency on Russia in particular, against the backdrop of steadily increasing hydrocarbon prices. Energy cooperation hence also came to be regarded as a tool for engaging external partners with a view to pursuing the creation of an arch of stability made up of a “ring of friends” beyond the EU’s borders²¹.

A steppingstone for EU energy security new thinking as well as for the attempt to develop a common European Energy Policy (EEP) was the March 2006 publication of the EC Green Paper *A European Strategy for Sustainable, Competitive and Secure Energy*²². By raising the supply security to a key aim for the EU – along with sustainable development and competitiveness – the Green Paper emphasized energy security’s external dimension, the coherent pursuing of which was not by chance mentioned as one of the priorities in order to achieve a comprehensive European energy policy. Common action by its Member States was, from the EC perspective, a logical prerequisite for coherent external action able to address XXI century challenges. Indeed, only by speaking with “a common voice” on energy questions, might the EU have exploited its weight – both in terms of market scale and policy range – to protect and assert its interests. Based on the strength guaranteed to the EU by joint action of its members, the Green Book put forward two key goals – and respective instruments – which, from then onwards, would have shaped EU policies aimed at safeguarding energy security in its long-term and external dimensions.

The first was promotion of energy partnerships with producer and transit countries. Based on the assumption of interdependency between the EU and its energy partners, such engagement involved deepening the dialogue with major international energy suppliers as well the promotion of a common regulatory space aimed at bringing partners and neighbors closer to the EU’s internal market and facilitating the flow of investments. The second goal put forward by the EC in 2006 was a “clear policy on securing and diversifying energy supplies” which, by recognizing the intra-EU dependency discrepancies, was regarded as necessary both for the EU as a whole and for specific Member States or regions, as part of the wider attempt to enhance solidarity within the Union. The main tool for achieving the diversification goal – intended as the promotion of diversity in suppliers, transport routes and transport methods – hence became

²¹ R. Prodi, “A Wider Europe A Proximity Policy as the key to stability”, speech delivered at “Peace, Security And Stability International Dialogue and the Role of the EU”, Sixth ECSA-World Conference. Jean Monnet Project, Bruxelles, 5-6 December 2002, [SPEECH/02/619], p. 4; As for the nexus between energy cooperation and stability promotion in the neighborhood, see also Commission of the European Communities, *Communication from the Commission to the Council and the European Parliament, on the development of energy policy for the enlarged European Union, its neighbours and partner countries*, COM(2003)262 final, 13 May 2003.

²² Commission of the European Communities, *A European Strategy for Sustainable, Competitive and Secure Energy*, COM(2006)105 final, Bruxelles, 8 March 2006.

the upgrading and construction of the infrastructure deemed necessary for the security of EU energy supplies, especially in the gas sector.

The diversification policy was pursued mainly through the development of the Trans-European Energy Networks (TEN-E), whose original purpose was to provide a more political impulse to energy infrastructure investment, and which underwent a significant change in strategy and operational approach since 2003. Indeed, the 2003 TEN-E guidelines marked the transition from a “bottom-up approach” consisting of evaluating projects of common interest originating from the field, to a “top-down strategy” built on the identification of axes for priority projects. In this way, EU institutions introduced a hierarchy among projects of common interest, giving higher priority to those deemed crucial for tackling the increased dependence on gas imports²³. Against this backdrop, the 2006 TEN-E guidelines revision introduced a further hierarchization among energy projects by labeling as “of European interest” mature projects located on a priority axis which have a cross-border nature (or a significant impact on cross-border transmission capacity) and contributed to strengthening security of supply in the Community. Moreover, in order to politically support and speed up the construction of gas pipelines of European interest encountering significant delays or implementation difficulties, the 2006 guidelines put forward the possibility of appointing a European coordinator responsible for the coordination of national procedures, as well as for the promotion of the European dimension of the project and cross-border dialogue²⁴.

The tendency to build EU external energy policy on the strengthening of dialogue with partners and on infrastructural policy was confirmed in 2008 by both the Green Paper *Towards a Secure, Sustainable and Competitive European Energy Network* and the *Second Energy Strategic Review*²⁵. Underlining once again the imperative need for EU Member States to enhance solidarity and joint actions both internally and beyond the Union’s borders, these documents

²³ Decision No 1229/2003/EC of the European Parliament and of the Council of 26 June 2003 laying down guidelines for trans-European energy networks and repealing Decision 96/391/EC, «Official Journal of the European Union», L176, 26 June 2003, pp. 11-28; See also Commission of the European Communities, *Report from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions on the implementation of guidelines for trans-European energy networks in the period 2002-2004*, COM(2006)443 final, Bruxelles, 7 August 2006.

²⁴ Decision No 1364/2006/EC of the European Parliament and of the Council of 6 September 2006 laying down guidelines for trans-European energy networks and repealing Decision 96/391/EC and Decision No 1229/2003/EC, «Official Journal of the European Union», L262, 22 September 2006, pp. 1-23; See also, Commission of the European Communities, *Report from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on the implementation of trans-European energy networks in the period 2007-2009*, COM(2010)203 final, Bruxelles, 4 May 2010.

²⁵ Commission of the European Communities, *Towards a secure, sustainable and competitive European energy network*, COM(2008)782 final, Bruxelles, 13 November 2008; *Second Strategic Energy Review. An EU Security and Solidarity Action Plan*, COM(2008)781 final, Bruxelles, 13 November 2008.

focused on the strengthening and integration of the internal infrastructure network and on its connection to the “essential infrastructure” bringing supplies from third-party countries and allowing supply route diversification. Once again, special emphasis was placed on securing a stable and diversified gas supply scheme, which the EC deemed to be necessary notwithstanding the ambitious targets for renewables development put forward by the EU in the 20-20-20 strategy. Moreover, with the backdrop of the January 2009 gas disruptions caused by the Russo-Ukrainian crisis and before the first signs of one of the toughest economic and financial crisis ever to be faced by Europe, the strategic role of natural gas in ensuring EU economic development and well-being was certified by the European Economic Recovery Plan (EERP)²⁶. Presented by the EC in November 2008, the stimulus package made available an unprecedented amount of funds (€3.9 billion) to finance a critical and mature energy infrastructure, this being an accelerator of investments in infrastructure aimed at both stimulating recovery from the economic downturn and fostering EU energy security objectives in terms of diversification. Significantly, the EERP marked a relevant shift in the EU’s energy sector funding, as for the first time it went beyond mere support to feasibility studies – traditionally granted within the TEN-E framework – providing funds contributing to the project implementation phase, and hence giving new impetus to an infrastructure experiencing financial hurdles.

Consistently with the above picture, the steady attention devoted by the EU institutions – and particularly the EC – to the external dimension of energy security has been confirmed by the documents released in the last two years, setting proposals and action plans for the short and mid-term²⁷. Indeed, alongside the need for the EU to ensure the functioning of internal markets and foster the development of renewable energy sources, cooperation with non-EU partners and diversification of suppliers and the supply channel remain at the top of EU policymakers’ priorities in line with the Lisbon Treaty provisions²⁸.

As for the priority given to the development of a strategic energy infrastructure, the EC has recently called for an overhaul review of the TEN-E

²⁶ Commission of the European Communities, A European Economic Recovery Plan, COM(2008)800, 26 November 2008; See also *EERP Regulation (EC) N°663/2009 of the European Parliament and of the Council of 13 July 2009 establishing a programme to aid economic recovery by granting Union financial assistance to projects in the field of energy*, «Official Journal of the European Union», L200, 31 July 2009, pp. 31-44.

²⁷ See for instance the European Parliament resolution *A new Energy Strategy for Europe 2011-2020*, «Official Journal of the European Union», C 99, 3 April 2012, pp. 64-77;

²⁸ Article 194 of the Lisbon Treaty (on the functioning of the European Union) put forward the EU’s energy policy competences, which shall aim to: (a) ensure the functioning of the energy market; (b) ensure security of energy supply; (c) promote energy efficiency and saving; (d) promote the interconnection of energy networks. Moreover, according to article 171(1), «the Union shall establish a series of guidelines covering the objectives, priorities and broad lines of measures envisaged in the sphere of trans-European networks; these guidelines shall identify projects of common interest».

framework that is for a new EU infrastructure policy aimed at promoting the completion of priority projects through a dedicated budget – estimated at €9.1 bln for gas infrastructures in the 2014-2020 period²⁹ – and likely to be partially allocated to the implementation phase of those projects which are not viable under existing market conditions³⁰. At the same time, the need to expand cooperation with key suppliers and transit countries through mutually beneficial energy partnerships, and to include the promotion of energy infrastructure development in EU external relations, has been readdressed by the EC with the September 2011 communication *The EU Energy Policy*³¹. Urging the Union to «to take a strong, effective and equitable position on the international stage to secure the energy it needs», the EC focused its proposal for the consistent development of an external energy policy around four main objectives, consisting of:

- building up the external dimension of our internal energy market;
- strengthening partnerships for secure, safe, sustainable and competitive energy;
- improving access to sustainable energy for developing countries;
- better promoting EU policies beyond its borders.

2.3. Caspian Region's and Azerbaijan's Place in EU Energy Security Policies from the PCA to the EaP

Against the backdrop of the EEP's gradual development and since the issue of the 2000 Green Paper, the exploitation and transportation of the significant and largely unexploited Caspian Sea energy resources³² has become a priority with a view to the diversification of energy suppliers and, generally speaking, to safeguard EU energy security from beyond EU borders³³.

²⁹ European Commission, *A Budget for Europe 2020*, COM(2011)500 final, Part I and II, Bruxelles, 29 June 2011.

³⁰ As for the EC proposal, European Commission, *Proposal for a regulation of the European Parliament and of the Council on guidelines for trans-European energy infrastructure and repealing Decision No1364/2006/EC*, COM(2011)658 final, Bruxelles, 19 October 2011.

³¹ European Commission, *The EU Energy Policy: Engaging with Partners beyond Our Borders*, COM(2011)539 final, Bruxelles, 7 September 2011.

³² According to the latest Bp data, the Caspian countries jointly possess 38.2 thousand million barrels of proved reserves of oil and 29.1 trillion cubic metres of natural gas, equivalent to 2.3% and 14% of world proved oil and gas reserves respectively. Bp, *BP Statistical Review...* cit., web edition, www.bp.com/statisticalreview (last retrieved on 30 August 2012), pp.6; 20. For the sake of this article, apart from Azerbaijan, Turkmenistan and Kazakhstan, the Caspian region also includes Uzbekistan, although it is not a littoral state of the basin. Its inclusion is justified by its potential contribution to developing an energy corridor running from Central Asia to Europe. Moreover, EU institutions themselves tend to include Uzbekistan within the scope of their energy policies, although domestic political conditions in this Central Asian country do not allow a deepening of the cooperation for the time being. See, for instance, Commission of the European Communities, *Second Strategic Energy Review. An EU Security and Solidarity Action Plan*, COM(2008)781 final, Bruxelles, 13 November 2008, p. 4.

³³ See Commission of the European Communities, *Towards a European strategy for the security of energy supply...*, cit., p. 75. The need to engage Caspian region producing states – and, at the same time, the central

The production potential of the Caspian basin is, however, partially offset by the difficulty in accessing and transporting its resources. Indeed, landlocked and with no direct access to European markets, the basin's states emerged from Soviet dissolution with a Russo-centric energy export network – a network which reinforced Russian energy leverage *vis-à-vis* the EU, giving the basin the “dual role” of energy producer and transit country. From this perspective, although Azerbaijan has a significant but limited share of Caspian hydrocarbon reserves³⁴, its value to the European diversification policy is not confined to its role of energy producer. Indeed, due to its strategic location on the Western shore of the Caspian Sea, wedged between Russia to the north and Iran to the south, Azerbaijan plays a potentially key transit role for hydrocarbons produced on the Eastern side of the basin.

Being the “cork in the bottle”³⁵ for the direct transportation of Caspian energy resources to European markets, Azerbaijan has emerged as the key regional actor in the competition developed since the mid 90s, aimed at breaking the Russian monopsony over the purchase of Caspian hydrocarbons. This aim was achieved through the opening of an Azerbaijani-Georgian-Turkish oil and gas corridor³⁶ which, besides its own significance, could have represented the western stretch of a longer East-West corridor linking Central Asia to Europe.

It is worth noting that throughout the 90s, regional energy competition evolved without EU direct involvement, notwithstanding the crucial role played by European energy companies – from Bp to Eni, Total and Statoil. Keeping a low-profile approach, the EU limited its involvement in the so-called “Great Game” to offering technical and financial support under the TACIS and INOGATE programs, while the critical political support came instead from the US Administration. Indeed, it was not until the emergence of a clearer EU external energy policy that Caspian resource development became a priority target for Brussels, and Azerbaijan consequentially came to be regarded as a strategic actor due to its twofold role of energy producer and transit country for Central Asian hydrocarbons. Hence, although Azerbaijan

role played by the Commission in such an attempt– was highlighted in May 2003 by the communication addressed by the EC to the Parliament and the Council in which, by widening the scope of the emerging European Neighbourhood Policy (ENP), the Caspian region was listed among those with which the EU was called upon to cooperate in order to: (a) face the challenges of growing external energy dependence; (b) address infrastructure issues on a regional level; (c) diversify sources of energy geographically and technologically; (d) broaden the basis for energy trade in the European continent and its adjoining continents. Commission of the European Communities, *Communication from the Commission to the Council and the European Parliament, on the development of energy policy for the enlarged European Union, neighbours and partner countries*, COM(2003)262 final, Brxelles, 26 May 2003, pp. 4-5.

³⁴ Azerbaijan possesses 18.3% and 4.4% of Caspian area proved oil and gas reserves. Bp, *BP Statistical Review...*, cit., pp. 6; 20.

³⁵ Z. Brzezinski, *The Grand Chessboard: American Primacy and Its Geostrategic Imperatives*, Basic Books, New York, 1997, p. 46.

³⁶ The Baku-Tbilisi-Ceyhan and the Baku-Tbilisi-Erzurum oil and gas pipelines were inaugurated on the route which links Azerbaijan to Turkey via Georgia in May 2005 and in December 2006 respectively.

signed a Partnership and Cooperation Agreement (PCA) with the EU in 1996 (in force since July 1999), and although energy cooperation was already included in the cooperation scheme thereby put forward³⁷, it was the EU's increasing focus on diversification of both suppliers and supply routes which made Azerbaijan the key partner for the development of Brussels' energy policies since the mid 2000s.

Against this backdrop, EU-Azerbaijani energy cooperation was progressively stepped up in line with the guidelines for external action spelled out by the 2006 Green Paper – that is the fostering of dialogue with energy partners and their engagement in EU diversification policies. The central role of Azerbaijan in the EU diversification policy emerged since 2003 and the review of the guidelines for the development of trans-European energy networks. Consistently with the new “top-down strategy” thereby put forward, the European Parliament and the European Council listed a gas corridor between the Caspian Sea countries and the Middle East to the EU among the five axes for priority projects (NG3), hence prioritizing existing gas pipeline projects having Azerbaijan as their main gas source. The reference relates to Nabucco, Interconnector Turkey-Greece-Italy (ITGI) and Trans-Adriatic Pipeline (TAP) – the latter enjoying “common interest” project status – whose concepts were put forward after 2001 by the energy companies involved. EU backing of pipeline projects running through the NG3 axis represented the EU's first concrete step into competition aimed at accessing and transporting Caspian region gas resources. In doing so, the EU took over the US project of an East-West energy corridor linking Central Asia to Western markets, prompting the idea of a fourth EU gas supply channel – alongside the Norwegian, Russian and North African ones. Indeed, although the fourth supply channel – which came to be defined the “Southern Corridor” in 2008 – was conceived to benefit from a multi-source supply scheme, since its initial proposition it was closely linked to the possibility of receiving gas supplies from Turkmenistan, through a Trans-Caspian Gas Pipeline (TCGP) whose concept was put forward after 1998 under US political aegis³⁸.

Stepping up the effort to open the Southern Corridor, the 2006 TEN-E guidelines labeled Nabucco and ITGI as projects of European interest, giving the highest priority to their realization³⁹. Moreover, in order to support the

³⁷ Council and Commission decision of 31 May 1999 on the conclusion of the Partnership and Cooperation Agreement between European Communities and their Member States, of the one part, and the Republic of Azerbaijan, of the other part, «Official Journal of the European Union», L246, 17 September 1999, pp. 1-51; See also Resolution on the economic and commercial aspects of the Partnership and Cooperation Agreement between the European Communities and their Member States, of the one part, and the Republic of Azerbaijan, of the other part, «Official Journal of the European Union», C115, 14 April 1997, p. 193.

³⁸ As for the development of the Trans-Caspian gas pipeline concept, see N. Badykova, *Turkmenistan's quest for economic security*, in G. Chufrin, *The Security of the Caspian Sea Region*, Oxford University Press, Oxford, 2001, pp. 231-243.

³⁹ Decision No. 1364/2006/EC..., cit., p. 10.

rapid development of the Southern Corridor, both Nabucco and ITGI-Poseidon – that is the interconnection between Greece and Italy – were listed among the ‘relatively small number of highly strategic projects’ which the EERP aimed at stimulating through the granting of fresh funding⁴⁰. In addition, exploiting the possibility provided by the 2006 TEN-E guidelines, the EC anticipated through the 2007 Priority Interconnection Plan its intention to assign a European coordinator to the Nabucco project⁴¹. The subsequent appointment of the Dutch Foreign Minister Jozias Aartsen to the post signaled the gradual rise of Nabucco – the only pipeline project assigned with a coordinator – to the top of the EU energy diversification agenda and, on the other hand, the deepening of EC political investment in promotion of the Southern Corridor. Indeed, although the EU, with the ultimate aim of facilitating diversification of the Union’s gas supply, officially supports all pipeline projects running through the Southern Corridor, it has nonetheless granted Nabucco with *de facto* political priority – first and foremost due to its huge planned transport capacity.

The degree of political investment in the Southern Gas Corridor emerged clearly through the 2008 *Second Strategic Energy Review*⁴². Presenting the Corridor as “one of the EU’s highest energy security priorities”, the Review called for a joint effort by the EC and Member States to work with the countries concerned – and Azerbaijan among them – in order to secure firm commitments for gas supply and construction of the necessary pipelines. Accordingly, the EC announced the possibility of setting up a block-purchasing mechanism for Caspian gas – the so-called Caspian Development Corporation (CDC)⁴³ – aimed at aggregating Member States’ gas demand to be addressed through the Southern Corridor. Hence the CDC concept helped tackle two hurdles delaying the development of the Corridor. First and foremost, moving from the assumption that no country individually requires incremental gas volumes that are sufficient to underpin the investment in infrastructures, the CDC aimed to foster the added value of a joint consumers action, while, on the other hand, being instrumental in overcoming the “defensive attitude of gas producers”. The latter consideration is particularly relevant with regard to Brussels’ attempt to open a trans-Caspian supply channel from Turkmenistan to Azerbaijan, the importance of which was stressed by the Second Strategic

⁴⁰ Nabucco and ITGI-Poseidon were granted 200 and 100 million euro respectively. Commission of the European Communities, *Annex to the Report from the Commission to the Council and the European Parliament on the implementation of the European Energy Programme for Recovery*, COM(2010)191 final, Bruxelles, 27 April 2010, p. 8.

⁴¹ Commission of the European Communities, *Priority Interconnection Plan*, COM(2006)846 final/2, Bruxelles, 23 February 2007, p. 11.

⁴² Commission of the European Communities, COM(2008)781 final..., cit.

⁴³ As for the development of the CDC concept and its operability, IHS CERA, *Caspian Development Corporation. Final Implementation Report*, December 2010.

Energy Review. Indeed, while Baku responded promptly and positively to EU engagement, the same was not the case with Ashgabat, which pursued a more differentiated export policy and a more conservative attitude to opening its national upstream sector to foreign investment.

Besides being considered a potentially key energy partner in the EU's attempt to promote supplier and supply route diversification, Azerbaijan has been increasingly and directly engaged in energy dialogue and cooperation with the EU institutions, both bilaterally and within multilateral frameworks. Apart from the above-mentioned provisions of the 1999 PCA and the space devoted to energy cooperation in the framework of European Neighbourhood Policy (ENP) Action Plans, the turning point for EU-Azerbaijani bilateral relations was the signing in November 2006 – with the backdrop of guidelines for external action put forward by the 2006 Green Book – of a Memorandum of Understanding (MoU) aimed at establishing a strategic partnership in the field of energy⁴⁴. Recognizing Azerbaijan's dual role of key producer and important transit country, the MoU promoted a shared vision of energy challenges which, built upon the enhancement of interdependence, outlined a comprehensive and balanced approach in terms of respective commitments and incentives focused on four areas of cooperation:

1. gradual harmonization of Azerbaijani legislation with EU legislation in the energy field;
2. enhancing safety and security of supplies from Azerbaijan and the Caspian region to the EU;
3. development of a comprehensive energy demand management policy in Azerbaijan;
4. technical cooperation and exchange of expertise.

It is worth noting that, as highlighted by the second area of cooperation, the MoU recognized the dual role of Azerbaijan as a key producer and important transit country and committed the parties to work together in order to support the development of the Central Asia-Europe energy corridor, identifying and promoting additional hydrocarbon sources and supply routes to Azerbaijan and onwards to the EU.

As the drive to develop the Southern Gas Corridor progressed, Azerbaijan emerged as the most committed country to its realization and the only producing country concretely able and willing to supply it⁴⁵. The Baku gov-

⁴⁴ *Memorandum of Understanding on a Strategic Partnership between European Union and the Republic of Azerbaijan in the field of Energy*, Bruxelles, 7 November 2006, web edition, http://ec.europa.eu/dgs/energy_transport/international/regional/caucasus_central_asia/memorandum/doc/mou_azerbaijan_en.pdf (last retrieved on 30 August 2012).

⁴⁵ Broadly speaking, the degree of Azerbaijani commitment to the development of projects aimed at diversifying EU supply routes and enhancing regional cooperation was further testified by the support provided, between

ernment's political commitment to the development of the supply route was firstly spelled out on the occasion of the 2009 EU Southern Corridor Summit held in Prague. There, the Azerbaijani President Ilham Aliyev – along with his EU Council, Turkish, Georgian and Egyptian counterparts – cosigned a declaration expressing their full support for the realization of the Corridor, seen as an important and mutually beneficial initiative for both the enhancement of energy cooperation and the fostering of social, economic and political cooperation in the whole region⁴⁶.

Politically, the most relevant reciprocal endorsement of energy cooperation came in January 2011 with the visit to Baku of the EC President José Manuel Barroso and Energy Commissioner Günther Oettinger. On that occasion, Barroso and Aliyev cosigned a joint declaration reaffirming the importance of the bilateral energy relationships and stressing the common objective to rapidly establish the Southern Corridor, regarded as «a stepping stone in increasing European Energy security and a guarantee that the resources upon the territory of Azerbaijan can be developed in the expectation that sufficient infrastructure and markets as well as commercial conditions exist»⁴⁷.

The Azerbaijani commitment to supply the Southern Corridor – regardless of the selected route for gas transportation – represented the most concrete breakthrough for a concept which otherwise would have had limited possibilities of realization. In this perspective, the January 2011 reciprocal commitment to cooperate for the realization of the Corridor paved the way to the unprecedented EU decision to endorse the EC, in September 2011, with the mandate to negotiate on behalf of Member States a legally binding treaty between the EU, Azerbaijan and Turkmenistan to build a Trans-Caspian Pipeline system.

Along with the bilateral path of energy dialogue, Azerbaijan has been actively engaged by the EU through the multilateral frameworks for cooperation launched since the second half of the 2000s with the backdrop of the 2004 and 2007 enlargements. Underscoring the steady rise of Baku's regional profile in relation to energy cooperation, in November 2004 Azerbaijan hosted a Ministerial Conference between the EU and fourteen states of the Caspian and Black Sea areas which launched the so-called “Baku Initiative” aimed at enhancing energy and transport cooperation among its participants. Since its inception and through the creation of dedicated working groups, the Baku Initiative has focused on four priority areas, consisting of energy market convergence, energy security, sustainable energy development and investment attrac-

2007 and 2008, to the concept of “Caspian-Black Sea-Baltic Energy Transit Space”, whose objective was to connect Caspian producers to the EU through Ukraine.

⁴⁶ *The Declaration – Prague Summit, Southern Corridor*, 8 May 2009, web edition www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/misc/107598.pdf (last retrieved on 30 August 2012).

⁴⁷ *Joint Declaration on the Southern Gas Corridor*, Baku, 13 January 2011, web edition, http://ec.europa.eu/energy/infrastructure/strategy/doc/2011_01_13_joint_declaration_southern_corridor.pdf (last retrieved on 30 August 2012).

tion⁴⁸. Against the backdrop of EU enlargement, the Baku Initiative emphasized two significant trends in EU policy for Azerbaijan and the Caspian area. On the one hand it highlighted the tendency to place this policy within the wider framework of the European neighbourhood strategy for the Black Sea area and, at the same time, to regard energy cooperation as one of its main pillars. On the other hand and consequentially, the Baku Initiative showed that energy policy – besides being functional to EU security needs – provided a tool for the gradual approximation of partner countries to the *acquis communautaire*, as well as for the enhancement of cooperation and mutual trust among them.

The above-mentioned tendencies also underlie the objectives put forward by the Black Sea Synergy (BSS), a regional cooperation mechanism launched in 2007 and based on the assumption that, with the backdrop of Bulgarian and Romanian accession to the EU, the prosperity, stability and security of the Eastern neighbours were of immediate concern to the Union⁴⁹. In accordance with the Baku Initiative's *ratio*, cooperation in the energy sector – along with the transport and environment sectors – was regarded by the BSS as an area of special dialogue with the Union, functional to build an entente likely to develop into concerted action in favor of civil society.

Energy cooperation also has a central role for the Eastern Partnership (EaP) initiative, launched by the EC in December 2008 and aimed at bringing the Eastern neighbours closer to the EU by fostering their stability, governance and economic development⁵⁰. Indeed, energy security was included as a cooperation area for both the EaP bilateral and multilateral tracks. While with specific reference to EU-Azerbaijani bilateral relations the agenda focused mainly on the issues of Nagorno-Karabakh conflict resolution, the strengthening of democracy and human rights⁵¹, energy security represented the third of the four policy platforms which form the framework's multilateral track. Ac-

⁴⁸ See, Ministerial Declaration on Enhanced energy co-operation between the EU, the Littoral States of the Black and Caspian Seas and their neighbouring countries, web edition, http://ec.europa.eu/dgs/energy_transport/international/regional/caspian/doc/2006_11_30_astana_conclusions.pdf (last retrieved on 30 August 2012). Referring to the "Baku Initiative", the EC highlighted that «for the EU, the main objective of this initiative is to facilitate the transportation of the extensive Caspian oil and gas resources towards Europe [...]. Indeed, secure and safe export routes for Caspian oil and gas will be important for the EU's security of energy supply by increasing the geographical diversification of the EU's external energy supplies. Supplying the EU market at competitive international prices will also be crucial for facilitating the economic, social and political development of countries of the Caspian region». Commission of the European Communities, *What is at stake - Background document on the Green Paper - A European Strategy for Sustainable, Competitive and Secure Energy*, [SEC(2006)317/2], p. 40.

⁴⁹ Commission of the European Communities, *Communication from the Commission to the Council and the European Parliament Black Sea synergy - A new regional cooperation initiative*, COM(2007)160 final, Bruxelles, 11 April 2007.

⁵⁰ Commission of the European Communities, *Eastern Partnership*, COM(2008)823 final, Bruxelles, 3 December 2008.

⁵¹ European Commission - High Representative of the European Union for Foreign Affairs and Security Policy, *Eastern Partnership Roadmap 2012-13: the bilateral dimension*, SWD(2012)109 final, Bruxelles, 15 May 2012.

cordingly with the decision endorsed by the first meeting of the dedicated working group in November 2009, energy security cooperation revolves around four key objectives:

- enhancing framework conditions and solidarity;
- support for infrastructure development, interconnection and diversification of supply;
- promotion of increased energy efficiency and use of renewable resources;
- regulatory framework and approximation of energy policies.

2.4. EU Energy Policies Regarding Azerbaijan: Accomplishments, Constraints and Recommendations

Since the beginning of the XXI century, the external dimension of EU energy security policies – and the consequent need to diversify energy suppliers and supply routes – has increasingly gained space within EU policy-making processes. Hence, while addressing the external dimension of energy security has become a policy imperative for the EU, the promotion of the Southern Gas Corridor has emerged as one of its key initiatives and, at the same time, as one of the major political investments undertaken by the EC, which came to play a driving role in the development of a common European energy policy. It is in this context that Azerbaijan, with its double strategic value of energy producer and potential transit country, emerged both as a critical EU partner and a relevant test case for evaluating the consistency between Brussels policies' aims and means. Against this backdrop – and on the eve of allocation of Shah Deniz II (SDII) gas to one of the pipeline projects running through the Southern Corridor – it may be stated that Azerbaijan's potential as a new EU gas supplier has been successfully exploited, while its transit potential – at least for the time being – has not.

Doubtless the EU, thanks to its support provided to pipeline projects through the TEN-E framework and the EERP, has been playing if not a decisive, at least a relevant and facilitating role in ensuring the flow of Azerbaijani gas to European markets – regardless of which market will be definitively chosen by the SDII consortium from the South-Western and the Central-Eastern ones. In particular, the EU has contributed to the projects' advancement by providing them with political backing and public visibility while, at the same time, acting as a catalyst for international funding from IFIs (International Financial Institutions). Yet the EU institution's role did not turn out to be decisive in fostering the realization of projects of European interest. This was primarily due to the structural shortcomings of the TEN-E framework which,

as recognized by the EC itself⁵², lacks focus, flexibility and a top-down approach to overcome the hurdles faced by the infrastructures. Moreover, given the cross-border projects' implementation delays caused by the different national authorization procedures, the EU still lacks the means to ensure consistency between European and national energy infrastructure priorities that is to coordinate the prioritization of infrastructures at EU and Member State levels. The road to overcome these shortcomings has already been identified by the EC through the renewed proposals for revision of the TEN-E scheme currently debated within EU institutions. Their endorsement would certainly provide the EU with more effective tools to address the political, financial and normative challenges posed by the construction of crucial cross-border infrastructures.

Since the beginning of the century, the evolution of competition for the transportation of Azerbaijani natural gas to Europe has clearly shown that the main decisions and agreements leading to the forthcoming inauguration of the Southern Gas Corridor were taken above and outside EU initiatives and participation. Indeed, the key role has thereby been played by energy companies with the direct or indirect support of their respective national institutions. While the primary role of private companies is inscribed in the market rules and in the bottom-up approach of the TEN-E provisions, Member States' external energy policies have more often than not turned out to be contradictory and contrary to the spirit of intra-European solidarity that should represent the foundation of EU common energy policy. Indeed, the lack of agreement among EU Member States on the means to ensure their own energy security has resulted in deep rivalry both within and between the main European gas supply corridors – that is among rival projects within the Southern Corridor as well as between the Southern and Eastern Corridors themselves. Besides overshadowing Brussels' preferences and guidelines, the unilateralist tendencies did not contribute to the overall transparency of energy competition and, at the same time, untied the interdependence knot which, from the EC perspective, should enhance the EU's international position and bargaining power. Yet, the EU Member States' tendency to pursue autonomous – when not contradictory – external energy policies is mainly the result of their traditional unwillingness to alienate sovereign prerogatives in a strategic sector such as energy and, all the more so, in relation to gas negotiations with key suppliers, which states prefer to manage bilaterally and within the wider framework of their own foreign policy vectors. From this viewpoint, the lack of coordination between the policies of governments and the EU institutions reflects the broader

⁵² See, for instance, European Commission, *Report on the implementation of the Trans-European Energy Networks in the period 2007-2009*, COM(2010)203 final, Bruxelles, 4 May 2010.

dichotomy between state and supranational prerogatives in the energy sector, which the Union's founding Treaties have not yet resolved.

In this context, the forthcoming opening of the Southern Gas Corridor's "first leg" linking Azerbaijan to European markets is primarily the result of the convergence of energy companies', Member States' and EU institutions' interests and policies. Hence, it is not by chance that the same success was not achieved where such convergence did not occur and, consequentially, the EU had to act as the main actor. This applies to the full exploitation of the Caspian gas corridor which is – at best – still uncertain, due to a number of technical and political causes not entirely dependent on EU failures.

First and foremost, full development of the Southern Corridor was hindered by the unexpected consequences of the tough financial and economic crisis which has affected EU Member States since 2008. By reducing aggregate EU demand for gas, the crisis added uncertainty to the gas demand addressed to the Southern Corridor, against the backdrop of wider uncertainties resulting from the potential development of unconventional gas in Eastern Europe and the greater availability of LNG on the market. In this context – while the stakeholders acting in the Azerbaijani leg of the Corridor were flexible enough to scale down the capacity of the most ambitious pipelines that is the Nabucco project – the huge investments required for the construction of a trans-Caspian gas pipeline proved to be economically unfeasible. Yet, the EC attempt to establish a mechanism for the aggregation of Member States' gas demand was a step in the right direction. The CDC, however, has not materialized yet, and in the meantime the EU has been losing ground to international competitors – primarily China – which have proven to be more flexible and determined in opening a gas supply channel from Central Asian producers.

Besides the consequences of economic hardship, it was however on political grounds that the EU institutions failed in advancing the concept of the Southern Corridor's Caspian leg. Basically, the EC has not been able to force the hand of those producers – primarily Turkmenistan – which, unlike Azerbaijan, were less willing to cooperate actively with the EU by facilitating its tasks. Indeed, while Baku has traditionally pursued an "open door policy" toward foreign investments in energy and, most importantly, has actively contributed to the infrastructural policy beyond its borders⁵³, Ashgabat has undertaken a resource nationalism course which has kept its upstream sector almost closed and, at the same time, prefers to sell gas at its borders and stay out of the pipeline politics. Hence, unable to aggregate Member States' gas demand,

⁵³ The reference relates primarily to the Trans-Anatolian Pipeline, a project put forward in 2001 by Azerbaijani and Turkish national energy companies and aimed at transporting Shah Deniz II gas to the Turkish-EU border from 2017. The project was crucial in advancing the EU Southern Corridor concept, by circumventing many of the financial and technical difficulties faced by the European infrastructural projects.

the EC lacked an effective policy of both economic and political incentives capable of circumventing Turkmenistan's closures.

Moreover, the failure in advancing the Trans-Caspian project is also the result of the lack of a coherent regional policy, able to provide EU institutions with the necessary tools to address the political issues that underlie energy competition. Indeed, since the initial appearance of the Trans-Caspian project, the main hurdle for its realization has stemmed from the lack of agreement among riparian states on the legal status of the basin. A legal dispute, the latter, behind which traditionally lay opposing views on the development of the energy sector, as well as cross-claims over some offshore deposits – including, inter alia, those directly involving Baku and Ashgabat⁵⁴. Yet, although the EC 2011 mandate to negotiate a trilateral treaty aimed at building a Trans-Caspian Pipeline represents a stepping stone for EU involvement in the basin's politics, it seems unlikely for the EC to achieve a concrete breakthrough toward construction of the pipeline, unless it is framed within a wider dialogue and mediation effort with all parties concerned – including Russia and Iran, traditionally opposed to the construction of the pipeline. Hence, the drive for the construction of the Trans-Caspian Pipeline shows the extent to which the presence of international relations “heavyweights” in the Caspian region limits EC influence in regional energy politics, making the Union's external energy policy subject to the same contradictions characterizing the development of a coherent EU foreign policy. Yet, a concrete proposal aimed at both strengthening EU external energy policy and fostering its regional profile has recently come from the European Economic and Social Committee (EESC). In a 2001 exploratory opinion, the EESC suggested the appointment of a high representative for energy policy alongside the high representative for foreign affairs and security policy, «given that energy security comes within these policy areas»⁵⁵.

If the EU has been successful in engaging Azerbaijan in its energy diversification policies, the same has not occurred in its attempt to involve the country in the EU's drive to extend its norms, rules and institutions beyond its borders with a view to creating a pan-European energy space. The attempt to gradually move from cooperation to integration failed notwithstanding the numerous frameworks within which it was pursued. In particular, Azerbaijan has not yet joined the 2005 Energy Community Treaty, a legally binding framework for non-discriminatory and market-based conditions for trade, transit and investment in energy products, regarded by the EU as the main instru-

⁵⁴ Azerbaijan and Turkmenistan have not yet found agreement on the demarcation of their respective sea borders in the Caspian Sea. Cross-claims on the offshore Serdar/Kypaz field represent the main hurdle toward bilateral entente.

⁵⁵ Opinion of the European Economic and Social Committee on *Energy supply: what kind of neighbourhood policy do we need to ensure security of supply for the EU?*, «Official Journal of the European Union», C 132, 3 May 2011, p. 15.

ments for the expansion of its rules – and hence its soft power – to the neighbourhood. Hence despite the Azerbaijani oil industry’s proven reliability as a partner for the establishment of a favorable climate for investment and its participation in both the Energy Charter Treaty and the Extractive Industries Transparency Initiative, the country remains outside the gradual establishment of a common European legal space in the energy sector. Such a shortcoming reflects the failure of both bilateral energy engagement and the various multilateral frameworks – from the Baku Initiative to the Black Sea Synergy and the Eastern Partnership – aimed at accomplishing the goal of fostering regional cooperation through the sharing of rules and the gradual adoption of the *acquis communautaire*.

Generally speaking, the multilateral approach to the challenges posed by energy security has proved to be unsuccessful, and the EaP is no exception to this trend. Indeed, it did not bring about the “real step change” in bilateral and multilateral relations between the EU and its Eastern neighbors that it was supposed to provide, at least not in relation to Azerbaijan or with reference to energy security cooperation. While the progress in advancing the Azerbaijani leg of the Southern Corridor occurred outside the EaP framework, little was achieved between 2009 and 2011 with regard also to the key objectives of the multilateral track. Notwithstanding that enhancement of the cooperation to integrate partners’ and the EU’s energy markets through comprehensive energy sector reforms is a key policy objective for the 2012-2013 period⁵⁶, it seems unlikely that EaP multilateral track will accomplish its goals. Indeed, the EaP exhibits most of the shortcomings of the Union’s external energy policy, first and foremost the lack of a wider and consistent regional strategy able to tackle the deepest political issues that impinge upon EaP countries’ foreign and energy policies – from the above-mentioned legal status of the Caspian Sea to the still unresolved regional conflicts. Unless the EU provides political depth to its regional economic and energy policies, its regional projection and more specifically its energy cooperation objectives will basically depend on single countries’ goodwill and specific interests. Only by demonstrating that the EU – in the words of the EC – «is prepared to engage with the Caspian and the Middle East regions on a long term basis, both politically and economically»⁵⁷, will it benefit from an incentive scheme able to provide Brussels with concrete influence over its partners’ policies.

⁵⁶ European Commission - High Representative of the European Union for Foreign Affairs and Security Policy, *Eastern Partnership: A Roadmap to the autumn 2013 Summit*, JOIN(2012)13 final, Bruxelles, 15 May 2012, p. 14.

⁵⁷ European Commission, COM(2011)539 final..., cit., p. 5.

3. The Potential Economic Hub of the European Eastern Partnership

Serena Giusti

«The Eastern Partnership is an EU policy aimed at bringing our Eastern neighbours closer to the European Union. The instruments of the Eastern Partnership are used to help the participating countries with their transformation. The EU's support for democratic and economic reforms in the neighbourhood helps to strengthen stability and prosperity which brings direct benefits to the citizens both in these countries and in the EU. This support goes not only to the reform efforts of the governments but is also designed to increase the role of civil society which has an important part in the transformation» (Štefan Füle, Commissioner for Enlargement and European Neighborhood Policy).

Introduction

This paper looks at the economic implications of the European Eastern Partnership (EaP) for the neighbouring countries participating in it. Since this policy does not contemplate European Union (EU) membership as its final target, countries taking part in it are only required to subscribe to a selection of EU policies and obligations. The economic component of the EaP has been the most developed and formalised so far. The pivotal role of economic cooperation is partly due to the fact that the EU was originally born as an economic entity (a customs union), and even now EU economic policy plays an important role in shaping European political construction. In recent decades much of European planning was centred around two major economic projects: the single market and the single currency.

As for the EaP, the importance of the economic dimension is also due on the one hand to the limited political incentives Brussels is currently able to of-

fer its Eastern neighbours, and on the other hand to the unwillingness of these countries to engage in a more demanding agenda of cooperation. Generally, the EaPs judge the EU paybacks insufficiently attractive to comply with EU conditionality¹ and tolerate, as a consequence, its meddling in their domestic affairs. The EU's political control over national politics is a particularly delicate question. Some of the EaP countries have authoritarian regimes while others are not yet consolidated democracies, and all of them are still struggling with a complex and multi-dimensional transformation process.

Despite these difficulties, both the EU and the EaPs consider it fruitful to keep the dialogue open and to strengthen their cooperation. Therefore, the parties have agreed to embark on a flexible and gradual project of convergence through the EaP. This innovative framework allows EaP countries to obtain some economic advantages and to adopt portions of European legislation, mostly connected with common market regulation. In exchange they receive EU support for implementing their economic reforms and the opportunity to widen the range of bilateral cooperation. The EU hopes in this way – through the diffusion of its regulatory apparatus – to contribute to the stabilisation and development of the Eastern region and to solidify a greater area of security at its borders.

This paper analyses the EU economic package within the EaP framework, examining the goals, tools and possible outcomes (EaP implementation is still at its early stages). As pointed out above, the EaP's economic proposal has been the most consistent and inclusive so far. As part of the Association Agreements (AA), the EU offers Deep and Comprehensive Free Trade Agreements (DCFTAs) which represent an ambitious commitment towards trade, liberalization, regulatory alignment and deeper economic integration. According to the differentiation principle, each of the EaP partners will negotiate on a bilateral basis the content of the Agreement at its own pace and in line with its national interests. This allows the most advanced and most willing countries to move faster and closer to the EU. These front-runner countries will serve as models for those lagging behind. The principle of differentiation is also consistent with the long-term vision of an economic community emerging between the EU and its European Neighbourhood Policy (ENP) partners. The AA, as conceived in the EaP context, is so far the most wide-ranging and advanced type of agreement the EU has envisaged, although it excludes the membership perspective. The EaP constitutes a step further than the ENP for the realisation of the “Everything but the institutions” goal. The overall idea behind the EU's new commitment is the gradual creation of a pan-European

¹ EU conditionality – setting rules as conditions that the recipients have to fulfil in order to receive rewards – has for instance shaped the Central and Eastern European countries which were obliged to develop their administrative capacities in complete convergence with the *acquis communautaire* in order to join the Union. The ENP still conceptually relies on conditionality as the main tool for promoting legislative approximation.

free trade area with a progressive sharing of common market regulation and benefits. Trade between the EU and the South Caucasus countries – Armenia, Azerbaijan and Georgia – has for instance intensified since their inclusion in the ENP (see Box 1).

Box 1. Trade between the EU and the Caucasus countries

Since 2004, the EU has become the main trade partner of each country (in 2010 trade with the EU represented 32% of overall trade for Armenia, 42.5% for Azerbaijan and 26.1% for Georgia). These countries' share of overall EU trade remains very low, however (less than 0.5% altogether).

EU goods exports to South Caucasus (2011): €5.08 billion (Armenia - €0.64 bln, Azerbaijan - €2.86 bln, Georgia - €1.58 bln).

EU goods imports from South Caucasus (2011): €15.7 bln (Armenia - €0.31 bln, Azerbaijan - €14.78 bln, Georgia - €0.61 bln).

EU exports to South Caucasus countries in 2011

Armenia - machinery and transport equipment (36.3%), manufactured goods (18.1%) and miscellaneous manufactured articles (14.8%).

Azerbaijan - machinery and transport equipment (47.6%), miscellaneous manufactured articles (20.1%) and manufactured goods (14%).

Georgia - machinery and transport equipment (33.1%), mineral fuels and related (28.4%), chemical products (12.8%).

Imports from the South Caucasus countries to the EU in 2011

Armenia - manufactured goods (65.9%), crude materials (19.7%), miscellaneous manufactured articles (8.8%).

Azerbaijan - 99.5% of total exports to the EU consist of mineral products (essentially fuels – oil and gas) Georgia - crude materials (34.1%), mineral fuels and related (32.7%), food and live animals (11.7%) and chemical products (10.1%)².

The extension of the EU common market should produce positive effects on the economic growth of all countries involved, including the EU members (a win-win process). It can also set in motion cooperative dynamics, further expanding the scope of initial economic integration. The DCFTAs are expected to make the Eastern partners convergent with the EU and to accelerate their Europeanization, strengthening the overall partnership with Brussels. How far regulatory platforms (adopting the body of EU legislation on certain policies) can influence the path of domestic reforms in the Eastern countries is the EaP's major challenge at the moment. In other words, will the simple regulatory policy be able to fulfil the EaP goals and bring the Eastern countries onto the EU's side?

² For trade figures see <http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/regions/south-caucasus/>.

3.1. From Economics to Deeper Integration?

According to Štefan Füle, Commissioner for Enlargement and ENP, the economic goals of the EaP are to encourage and favour economic reforms in the countries concerned with a view to guarantee their better integration in the global market, improve their economic performance and provide people with better standards of life (prosperity). The guiding idea of the EaP is that economic cooperation may smooth the progress of political dialogue and bring the EaP countries closer to the EU on a broader range of policies. As a consequence, the economic instruments made available within the EaP framework are particularly valuable for the overall success of that policy. The drive of the EaP strategy is the functionalist/neo-functionalist principle that was so effective in the first steps of the European integration process. The EU is the result of the development of the European Coal and Steel Community (ECSC) and the European Economic Community (EEC), based on a deliberate merger of economic activity in particular economic sectors across national borders. Economic integration brought about political integration, while supranational institutions accelerated and reinforced these processes.

The neo-functionalist approach implies incremental steps in integration that starts from areas of low politics such as economics. The integration of particular economic sectors across nations is expected to create functional pressures for the integration of related economic sectors, progressively entangling national economies (spill-over dynamic). Already at this stage, supranational institutions are important to keep the integration momentum and to assure the durability of the integration achievement. The process is to be strengthened by a gradual transfer of national loyalties to a European level, where national interests can be better achieved. Deepening economic integration will create the need for further European institutionalization as more expansive integration will require greater regulatory complexity. According to neo-functionalism, political integration is an inevitable consequence of economic integration. Therefore gradual economic integration coupled with progressive institutionalization should contribute to the creation of a community of security³.

Neo-functionalist mechanisms, as described above, might also come into play as a consequence of AA implementation. Even if the nature of the issues dealt with in the EaP is generally neutral, in the long-run, progressive coverage of more highly politicized issues may take place. Deeper cooperation could generate spill-over effects within a single policy (deepening) or spread over other interrelated policies (widening), as a result strengthening the overall partnership between the EU and the EaPs. Furthermore, within existing economic activities

³ On the content and various stages of integration according to the Neo-functionalism see B. Rosamond, *Theories of European Integration*, London, Macmillan Press, 2000, pp. 50-73.

the need for a more political approach may arise, demanding further intervention of the political elites (bottom-up). In general, density of interaction – which the EaP is expected to intensify – stimulates the expansion of “policy transfer” across different institutional contexts⁴. Frequent interaction in a dense ‘organizational field’ can set in motion processes of “institutional isomorphism”⁵, making organizations increasingly homogeneous and inclined to adopt growing similarities of regulatory practices⁶. So if the EaP works, there could be progressive convergence and homogenization between the EU and the participating countries, derived from the practice of cooperating and implementing common projects, and well overcoming the EaP governments’ and European institutions’ initial determination to engage on economics alone.

The EU Member States also hope to get some paybacks from the deepening of the EaP’s economic side. The EU is the main trading partner for most of its Eastern neighbours and this trend can be reinforced while sustainable economic development and job creation in partner countries will be profitable in terms of exporting and investments. Most of the Eastern neighbours already rely on the EU as their main export market and import source. Trade in goods and services is a powerful instrument to stimulate economic growth, enhance competitiveness and support economic recovery.

However, the EaP is far from being a smooth process, mostly due to the absence of a membership perspective. First of all, progress on economic integration requires more than a comparable degree of privatization or similar competition laws. Economic integration between the EU and the candidate countries (2004 and 2007 enlargements) – meaning the removal of barriers among countries to the movement of goods, capital and labor and the creation of linkages between countries’ economies – could be achieved even without full membership and without prior convergence of the economic systems. But that experience also showed that the realization of a single market – requiring harmonization of laws, regulations and market procedures – could be achieved only because of a full membership promise. So within the EaP also, even if the process of economic convergence initially succeeds, it might end up stagnating due to a lack of political purpose.

The great diversity of the economic systems of the countries involved, along with the huge gap between the EaPs’ and EU members’ economic development, may be another obstacle to EaP advancement. The EaPs’ economies are much poorer than the EU’s least performing Member States. Therefore it

⁴ See D.P. Dolowitz and D. Marsch, *Learning from Abroad: the Role in Policy Transfer in Contemporary Policy-Making*, «Governance», Vol. 13, No. 1, pp. 5-24.

⁵ J. Dimaggio and W. Powell, *The Iron Cage Revisited’ Institutional Isomorphism and Collective Rationality in C. Radaelli, Policy transfer in the European Union: Institutional Isomorphism as a Source of Legitimacy*, in «Governance», Vol. 13, No. 1, pp. 757-774; *Organizational Fields*, «American Sociological Review», No. 48, 1983, pp. 147-160.

⁶ C. Radaelli, *Policy transfer in the European Union...cit.*

will be highly costly for the Eastern partners to adapt to EU standards and legislation and in particular to put them into practice. In addition, the EaP economies are very wide-ranging in terms of their backgrounds, paths of transformation, availability of natural resources, trade patterns and Foreign Direct Investment (FDI) attractiveness.

A double track bilateral/multilateral action has been introduced to respond to both national and regional needs. A common set of actions targeted for all partners is accompanied by bilateral agreements on the basis of each country's specificity, expectations and will to commit progressively more to the partnership. For those countries ready for further integration, the EU has enriched the traditional Association Agreements with the DCFTAs. However, we should not overlook the fact that the "Europeaness" of some of the EaP countries is not only feeble but also fluctuating, Russia being the other pole of attraction⁷. So EaP assessment should also consider what the available alternatives are for the Eastern countries.

3.2. Levels of Economic Integration

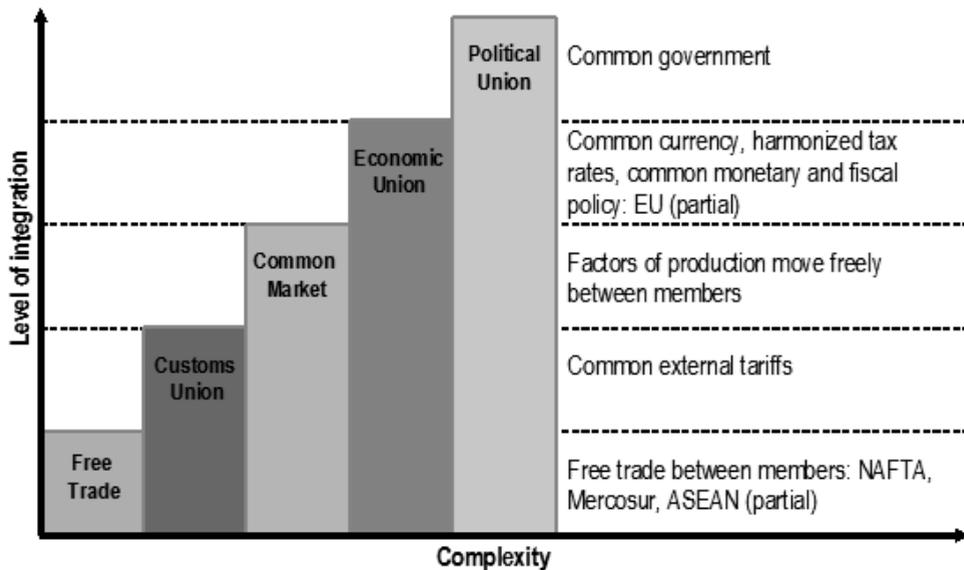
What goals does the EU attach to the EaP? What level of economic integration does the EaP involve? And what is the optimal level of economic integration that the EaP can generate? Achievement of the EaP economic goals will firstly depend on the conclusion and implementation of the DCFTAs. But what do the DCFTAs concern? In order to explain the economic commitments and expected benefits, including in terms of further integration prospects, we will briefly refer to Tinbergen's distinction between positive and negative integration and Balassa's five stages of integration⁸. According to Tinbergen, the term "negative integration" refers to measures consisting of the abolition of a number of impediments to the proper operation of an integrated economic area. This primarily consists of reduction of trade impediments between national economies, meaning the reduction of import duties or the expansion of quotas. "Positive integration" on the other hand entails those activities where institutions or legal instruments need to be created or modified. Moving on from Tinbergen's definitions, Pinder used "negative integration" for that part of economic integration that consists of the removal of discrimination, and positive integration as the formation and application of coordinated and com-

⁷ The fluctuating attitude is particularly evident in the case of Belarus and Ukraine as evidenced by S. Giusti and T. Penkova in *Ukraine and Belarus Floating between the European Union and Russia* in F. Bindi (Ed.), *The Foreign Policy of the European Union: Assessing Europe's role in the World*, Second Edition, Washington, Brookings Institution Press, 2012, pp. 134-152.

⁸ R. Balassa, *The Theory of Economic Integration*, Homewood, Irwin, 1961.

mon policies in order to fulfil the economic and welfare objective rather than the removal of discrimination⁹.

Balassa's five categories ranging from "free trade area" at the low end of the spectrum to "total economic integration" provided a template for economic analysis of integration, even though the experience of European integration reveals some incongruence. These categories are formal rather than behavioural since they do not measure the extent to which actual flows follow the abolition of formal discriminatory barriers, or the extent to which mutual sensitivity increases as a result. They can thus be useful in describing policies undertaken by states, at least on a formal level. They do not explain the significance of those politics for economic interdependence or effective levels of economic integration¹⁰. In Balassa's categorization there is also an underestimation of the degree to which national regulation needs to be harmonised or transferred to Union level (positive integration). As Laffan, O'Donnell and Smith put it, «...while Balassa underestimated the institutional policy and political requirements of a Free Trade Area, a Customs Union and a Common Market, he may have overestimated the centralisation of economic policy and political authority necessary for an Economic Union or Total Economic Integration»¹¹.



⁹ J. Pinder, *Positive and Negative Integration: Some Problems of Economic Union in the EEC*, «World Today», March 1968, p. 90.

¹⁰ R.O. Keohane, J.S. Nye, *International Interdependence and Integration*, Boston MA, Little Brown and Co., 1977, p. 369.

¹¹ B. Laffan, R. O'Donnell and M. Smith, *Europe's Experimental Union*, London and New York, Routledge, 2000, pp. 102-103.

Box 2. Levels of economic integration

Free-trade Area

A free-trade area is established by eliminating all tariffs and non-tariff barriers among the members in agreement in the trading nations, with each member maintaining a set of trade restrictions. The agreement can be limited to a few sectors or cover all aspects of international trade. It can also include formal mechanisms to resolve trade disputes.

Customs Union

A customs union comprises a free-trade area, and is an agreement among the participating nations to remove all tariffs and non-tariff trade barriers. The aim for establishing a customs union would be to increase economic efficiency and build closer political/cultural ties between the member countries. An example is Benelux which consists of Belgium, the Netherlands, and Luxembourg, formed in 1948, and the Andean Group which consists of Bolivia, Colombia, Ecuador, Peru and Venezuela.

Common Market

A common market represents a major step towards significant economic integration, eliminating all barriers to trade in goods among the member nations, and adopting a common external tariff. In addition, it permits free movement of goods and services within the market. The many benefits of a common market are full free movement of factors of production between the member countries, and factors of production become more efficiently allocated with the additional benefit of increasing productivity. The European Union is an example of the achievement of such a common market status in 1992.

Economic and Monetary Union

An economic and monetary union is a union in which national, social, taxation, and fiscal policies are harmonized and administrated by a supranational institution: an agreement is required to transfer economic sovereignty to a supranational authority. A final degree of economic union by the supranational monetary authority would be the unification of national monetary policies and one which administrated the acceptance of a common currency. The United States is an example of a monetary union.

Complete Economic Integration, Political Union

Complete economic integration is the final stage of economic integration. Political integration is required, and in order to be effective it is necessary for all provinces to be at the same stage of the economic cycle. For the effectiveness of the government policy to be maximized, it is best for the economic microcosms to be at the same stage of the economic cycle.

In order to achieve economic harmonization, increasing central control would be necessary to pursue an economic area-wide policy of combating inflation and the promotion of stability. A loss of provincial political sovereignty is often scrutinized, but is necessary to remove disparities. An example of complete economic integration is the United States, which has a federalist system of governance as it required political union to function as a single economy.

According to the ongoing negotiations of the DCFTAs, this type of agreement can be placed somewhere in-between the Free Trade and Common market levels of integration. Since the DCFTAs are part of a wide-ranging policy, the scope of integration could go beyond economics. But the potentialities and capabilities of DCFTAs are still uncertain. Although having had a long expe-

rience of dealing with third-party countries (at least four types of arrangements have crystallized in the last decade)¹², the EU has opted for a hybrid tool. In the past the AAs have only been offered to candidate countries, while this time membership is excluded for the EaPs.

Box 3. Types of arrangements between the EU and its partner

1. Participation in the Single Market including labour mobility but exclusion from the Common Agriculture Policy (CAP) (see European Economic Area: Iceland, Norway and Liechtenstein).
2. A customs union excluding Agriculture and movement of Labour (see Turkey).
3. Bilateral Free Trade Agreements (FTAs) focusing almost exclusively on tariff reductions – Euromed agreements.
4. No formalized bilateral agreements (most of these countries are not even members of the WTO).

Overview of existing trade relationships between the EU and its neighbours¹³

Type of bilateral trade agreement	Entry into force	Member or target countries	Key characteristics
EEA (European Economic Area) /EFTA (European Free Trade Area)	1994 for EEA. Switzerland has “Bilateral I” series of treaties since 1999	Iceland, Norway, Liechtenstein, Switzerland	EEA: full participation in EU Single Market (four freedoms). No agricultural goods trade liberalisation. Switzerland: also agreement on processed agricultural goods with EU. Partners maintain external trade policy autonomy.
Common Economic Space	Projected, stalled	Russia	Unclear. Close to full economic integration with free movement of goods, services and capital and easy movement of labour.
EUROMED Association Agreements, stemming from the Barcelona Process in the 1990s	Late 1990s or early years of 2000 decades	Jordan, Lebanon, Israel, Egypt, Tunisia, Algeria, Morocco	Focus on tariffs in goods – progressive elimination of tariffs. Trade rules: Intellectual Property clauses. No meaningful liberalisation in agriculture. No liberalisation of services, no liberalisation of investments, no clauses on government procurement. No meaningful clauses on Technical standards or Sanitary and phytosanitary standards. Partners maintain their domestic economic policy and trade policy autonomy.
Accession Countries	Croatia to join in 2013, and Iceland excepted to join. Accession negotiations with	Croatia, Iceland, Turkey; with Turkey, customs union in force which ex-	Projected: Full participation in EU Single Market (four freedoms) and inclusion into the CAP and fisheries policy.

¹² I. Dreyer, *Trade Policy in the EU’s Neighbourhood – Ways Forward for the Deep and Comprehensive Free Trade Agreements*, in *Europe and World Governance*, Notre Europe - Jacques Delors Institute, pp. 16-20.

¹³ *Ibidem*, pp. 20-21.

	Turkey stalled	cludes agriculture	
Association and Stabilization Agreements in Balkans	2007-2010	Bosnia-Herzegovina, Serbia, Albania, Montenegro; no agreement with Macedonia	Various levels of trade integration. Preferential tariff regime, no meaningful agricultural market liberalisation of services markets both ways.
DCFTAs (Deep and Comprehensive Free Trade Agreements)	Projected	Formally concluded but not signed nor disclosed with Ukraine in late 2011; negotiations launched with Georgia, Armenia and Moldova; proposed by EU to EUROMED countries in late 2011	Proposed: Duty free quota in manufactured goods. Almost duty free quota free trade in agricultural goods. Advanced rules to open services markets and investment regimes, as well as government procurement. Partners have to apply EU laws related to Single Market, not least technical standards and sanitary standards. This is not only for their exports to the EU, but their entire domestic market needs to comply with these rules. No meaning liberalisation of Mode 4, that is temporary movement of labour in sight. "Mobility partnership" supposed to deal with labour migration.
Others	No agreement related to trade liberalisation in last two decades	Azerbaijan, Syria, Libya	N/A

3.3. The Bilateral Path and the DCFTAs

According to the EaP philosophy, the partnership between the EU and each Eastern neighbour will evolve on the basis of its needs, capacities and reform objectives. Some partners may want to move further in their integration efforts, which will entail a greater degree of alignment with EU policies and rules leading progressively to economic integration in the EU internal market. The development of the AA – the deepest contractual relationship foreseen so far between the EU and a third-party country as a powerful instrument for promoting gradual economic integration – will be accompanied for the EaPs by the DCFTAs that will allow the contracting state to participate in the European market (not all sectors) and modernize its economic system. The DCFTAs – including an extensive adoption of EU common market legislation – represent a step further than the 2007 “enhanced agreement” that already implied deep and comprehensive free trade. The closest precedents to the new AA are the Stabilisation and Association Agreements (SAA), part of the EU Stabilisation and Association Process (SAP) and the ENP. Specific Stabilisation and Association Agreements have been implemented with various Balkan countries and explicitly include provisions for future EU membership of the country involved. SAAs are similar in principle to the European Agreements signed with the Central and Eastern European countries in the 1990s and to

the Association Agreement with Turkey. SAAs are based mostly on the EU's *acquis communautaire* concerning the policies covered by the agreement. The depth of policy harmonisation expected by SAAs is a function of the level of integration the parties agreed upon. The DCFTAs can also be compared to the European Economic Area, negotiated in 1989-1993 between the EC and EFTA countries¹⁴.

The DCFTAs go beyond the traditional concept of trade liberalization, which focuses mostly on reducing and removing customs tariffs (negative integration) and is sometimes limited to trade in manufactured goods only. Apart from the dismantling of trade barriers (with some exceptions related to agriculture products), the concept of a deep FTA also includes reduction/removal of Non-tariff barriers (NTB), liberalization of the investment regime, liberalization of trade in services, and far-reaching harmonization/mutual recognition of various trade and investment-related regulations and institutions. In particular, progressive regulatory convergence concerns areas that have an impact on trade, such as sanitary and phytosanitary standards rules (SPS), animal welfare, customs and border procedures, competition and public procurement. They are designed to be dynamic in order to keep pace with regulatory developments in the EU's internal market.

The DCFTAs are intended to be a dynamic process. For the most advanced partners, a DCFTA can lead to progressive economic integration with the EU internal market. Through progressive approximation of EU rules and practices, DCFTAs require a high degree of commitment to complex and broad-ranging reforms. This implies a strong institutional capacity. The reforms can be politically challenging and require the involvement of the business community as well as other interested parties. To embark on negotiations, partner countries must be WTO members (in line with the concept of interlocking institutions) and address key recommendations enabling them to comply with the resulting commitments. They must also have made sufficient progress towards common values and principles (conditionality principle).

As we have pointed out, in principle DCFTAs can lead to progressive integration with the EU internal market. But full integration cannot be realised unless accession is consented. What can be achieved through DCFTAs is an increasing Europeanization of the Eastern partners. Europeanization can be defined as «an incremental process reorienting the direction and shape of politics to the degree that the EC political and economic dynamics become part of the organisational logic of national politics and policy-making»¹⁵. But while for EU Member States Europeanization is a two-way process involving “bot-

¹⁴ K. Raik, *A Rocky Road towards Europe*, FIIA Briefing Paper 110, 19 June 2012, p. 4.

¹⁵ R. Ladrech, *Europeanization of Domestic Politics and Institutions: The Case of France*, «Journal of Common Market Studies», XXXII, 1994, pp. 69-88.

tom up” and “top-down” dynamics, the EaPs are treated simply as consumers of Europeanization. They are only participating in the second segment of the process, the descending stage of the European policy process, being excluded from the formation phase in which European policy outcomes and the content of the *acquis communautaire* are determined. DCFTAs are promoting selective and flexible Europeanization. So the EaPs are asked to re-model laws, regulations and institutions in an-EU compatible fashion for those issues covered by the agreement. If the DCFTA process works, there will be a gradual convergence (asymmetrical) of the Eastern partners towards the EU.

The DCFTAs are expected to guarantee third-party countries’ enterprises better access to the EU market and third-party country markets (as a result of harmonization with EU product standards and economies of scale) and to encourage intra-industry trade. The additional inflow of FDI will contribute to the modernization of EaP economies and enterprises. Regulatory and institutional harmonization may help to improve the business and investment climate in partner countries. Both the AA and the DCFTAs may help to improve the rule of law, domestic policy transparency and corruption; both agreements will serve as an external anchor to domestic policies and regulations.

However, the range of benefits potentially produced by the DCFTAs will mostly depend on the contracting countries’ political will and administrative capacity to implement all their provisions. If there is a persistence of high barriers to market entry, overregulation, an excessive number of administrative inspections, non-transparent and poorly administered tax and custom systems, an unstable and non-transparent legal system, a weak and corrupt public administration and judiciary, weak contract enforcement, insufficient property rights protection, the excessive prerogatives of law enforcement agencies, and the underdevelopment and monopolization of infrastructures, then the DCFTAs may fail in their basic intentions. One cannot overestimate the potential of the DCFTAs to address more fundamental issues such as poor quality of public administration or the judiciary (need for more integration; spill-over logic). Thus, if the fundamental economic, political, and institutional reforms are not accelerated and conducted in a more comprehensive and consistent way, the prospect of implementing the DCFTAs (and their potential benefits) will come into question.

3.4. DCFTA Negotiations and Implementation

When the EaP was launched, the EU was willing to open negotiations for a DCFTA with Ukraine, Moldova and the Caucasus countries. With Georgia, Moldova and Armenia, negotiations were launched at the beginning of 2012. The EU has also promised to offer DCFTAs to four Mediterranean countries in the aftermath of the 2011 “Arab Spring”: Egypt, Jordan, Morocco and Tu-

nia. According to the EaP roadmap issued by the European Commission and High Representative in May 2012, negotiations with all four countries “should be well advanced, if not finalised” by late 2013. So far it seems plausible that only Moldova, Georgia and Ukraine will be ready within the next couple of years. As for Armenia the process is more complex, while Azerbaijan is not on the frontline in terms of willingness and readiness, and finally Belarus does not qualify to take part in the process due to its autocratic rule. The difficulties that these countries are encountering in their transition to or consolidation of democracy might be an obstacle to the finalization and coming into effect of the DCFTAs.

Ukraine’s stalling process in the finalisation of its DCFTA is very emblematic: negotiations were formally concluded in late 2011 but the agreement was not signed due to what the EU considers a “selective use of law” with reference to the imprisonment of former Prime Minister Yulia Tymoshenko on charges of abusing her office. The EU leaders made it clear that the deal would not be signed until improvements are made to the “quality of democracy and rule of law”. The impasse in the EU-Ukraine agreement sets a strong precedent for the other neighbours. The stagnation of the ratification process is telling regarding EU leverage *vis à vis* other influential and generous actors such as Russia. By refusing to sign the agreement with Ukraine, the EU has set an important precedent and has exerted its conditionality power, although in a very limited way. The country’s AA will not be signed until after the parliamentary elections in Ukraine, scheduled for October 2012. These elections will be “a litmus test” with the Union monitoring the country’s respect for the basics of democracy – free and fair elections. In Ukraine, the EU is facing the classic dilemma of interests versus values: is it better to accelerate the establishment of deeper contractual relations or to postpone this until values are respected? But a further suspension could reinforce Russia’s role and put at risk the reforming process undertaken, as well as the partnership with the EU.

Although ambitious, the AAs nevertheless show that the EU toolkit is unable to exert a strong attraction and influence (conditionality) for the Eastern countries. Even a regulatory approach needs to be supported by more interesting rewards, starting for instance by allowing the Eastern countries to fully join the single market (the EaPs are not expected to join the single market with its four freedoms anytime in the near future), opening up agriculture and other sensitive industrial sectors and the free movement of workers.

In the shorter term, for those partners not ready or willing to embark on DCFTA negotiations, other measures can be taken to boost and facilitate trade. Taking into account the circumstances and level of ambition of each partner country, the EU will seek to extend trade concessions in existing agreements or ongoing negotiations, notably in those sectors best positioned to provide an immediate boost to partners’ economies. Greater market access for

goods can be achieved through Agreements on Conformity Assessment and Acceptance of industrial products (ACAAs), which will allow free movement of industrial products in specific sectors through mutual acceptance of conformity certificates¹⁶. The ACAAs aim to cover all sectors where the legislation is harmonised at the EU level. A partner having reached that stage would in fact become part of a free trade area for industrial products between the EU, the EEA and Turkey. ACAAs type agreements are likely to be signed with Tunisia and Egypt very soon.

The process of institutional reforms needed for negotiations and implementation of AAs, DCFTAs or visa liberalisation regimes, is supported by the Comprehensive Institution Building Programme (CIB) that is aimed at supporting those institutions engaged in the reforming process for the successful conclusion and later implementation of the DCFTA. The CIB programme is divided in two main phases:

1. Selection along with the partner government of the institutions to be strengthened according to the challenges they have to face in the light of the AA negotiations. These institutions and the key challenges they face are set out in a framework Document.
2. The selected institutions sketch out multi-annual Institutional Reform Plans (IPRs). These are multi-annual documents designed to respond in a flexible way to the institutions' changing needs.

The EU will finance part of the measures defined by the IPRs, while other donors – EU Member States in particular – can contribute as well. In July 2011, the EU appropriated a budget of €43 million for the 2011 CIB programmes.

CIB Framework Documents were signed by the EU with all five participating partner countries in 2011

Amount of bilateral financial envelopes 2010-2013 CIB

Country	Amount in millions of euros
Ukraine	40
Moldova	50
Georgia	31
Azerbaijan	19
Armenia	32

¹⁶ The conclusion of an ACAA is the end result of extensive dialogue and assistance in the fields of technical regulations and standards for industrial products. The adoption of the EU system by other third-party countries will contribute to the elimination of technical barriers to trade, thereby increasing the accessibility of third-party countries' markets to products from the EU and vice versa. It should also consolidate the EU model as one appropriate for product regulation beyond the EU and contribute towards upgrading the quality infrastructure and technical development in the partner countries. At the same time, the existing level of health and safety protection in the EU is ensured and not compromised by the widened access to the single market for third-party countries' products. The sectors concerned are mainly machinery, electrical products, construction products, pressure equipment, toys, medical appliances, gas appliances and pharmaceuticals.

Pilot regional Development Programmes have been introduced to assist partner countries to face up to regional economic and social disparities between regions and population groups (often divided by historical, cultural, ethnic and religious differences). The regional development programmes can contribute to addressing economic imbalances and disparities between regions that undermine the capacity of a country’s economy as a whole. The current pilot programmes will help members of the EaP identify appropriate structures and activities for addressing these challenges, within their territories and if appropriate cross-border with their neighbours in the region. These programmes have been inspired by the EU’s cohesion policy experience.

EaP Funds

Eastern Partnership Funds			
Eastern Partnership Comprehensive Institutional Building Programme (CIB) €175 million	Pilot regional Development Programmes €75 million	Multilateral	Dimension
		€350 million	

3.5. Multilateral Path

Full accomplishment of the AA goals can be supported by a number of multilateral programmes. The multilateral approach of the EaP can sustain the development of economic cooperation set up by bilateral relations. Large assistance programmes have been developed recently to support the reform process in the recipient countries. These programmes are based on the priorities identified jointly with a third EaP country in the framework of a multiannual “National Indicative Programme”. While the AAs require the implementation of part of the EU legislation and give the EU the right to monitor the Europeanization process, the multilateral programmes are based on what has been labelled as “soft law” (“codes of conduct”, “guidelines”, “communications”). The EaP largely relies on normative governance – defined as the diffusion of shared knowledge and ideas through a cyclical peer review process¹⁷. This approach is reminiscent of the Open Method of Coordination (OMC) that was originally developed within the EU in the employment area, based on common guidelines, national action plans, benchmarking, peer reviews, joint evaluation reports and recommendations. These ingredients are organized in relatively structured processes that repeatedly, over time, endorse trust and a cooperati-

¹⁷ See U. Mörrth, *Soft Law and New Modes of EU Governance – A Democratic Problem?*, Paper presented in Darmstadt, November 2005, http://www.mzes.uni-mannheim.de/projekte/typo3/site/fileadmin/researchpercent20groups/6/Papers_Softper cent20Mode/Moerth.pdf.

ve orientation among participants, who at the same time learn how to align on similar practices. As a result, even in the absence of hard regulation and sanctions, the OMC creates several incentives for compliance and has strong potential to influence participants¹⁸.

One of the goals of the EaP is to diffuse precisely a process of following “lesson-drawing” that relies on voluntary transfer based on a cost-benefit calculation that, by definition, does not include direct or very limited rewards from the EU, but only expected benefits deriving from the adoption of a set of rules, which is considered to be more efficient and beneficial. This model, contrary to the “logic of appropriateness”¹⁹, is embedded in the perceived legitimacy and profitability of the proposed legislation or conduct of action *per se* rather than the organization sponsoring it. «The process of lesson-drawing starts with scanning programs in effect elsewhere, and ends with the prospective evaluation of what would happen if a program already in effect elsewhere were transferred here in future. Lesson-drawing is part of a contested political process; there is no assurance that a lesson drawn will be both desirable and practical. The conclusion considers the uncertainty and instability of judgments about the practicality and desirability of transferring programs»²⁰.

From an economic point of view, the exchange of best practices is particularly useful for good governance and economic integration and growth (including the environment). The EU has established platforms covering these topics. The expert panels complement the work carried out with the EaP partners bilaterally.

3.1.1 Flagship initiatives

Five flagship initiatives have been launched at a regional level, which are implemented through regional projects under the framework of the Regional East Programme for 2010-2013. Among these (Integrated Border Management Flagship Initiative, Regional Electricity Markets, Energy Efficiency and Renewable Energy Sources; Prevention, Preparedness and Response to natural

¹⁸ M. Ferrara, M. Matsaganis and S. Sacchi, *Open Method of Coordination against poverty: the new EU “Social Inclusion Process”*, «Journal of European Social Policy», Vol. 12, No. 3, 2002, pp. 227-239.

¹⁹ The logic of appropriateness is a perspective that sees human action as being driven by rules of appropriate or exemplary behaviour, organized into institutions. Rules are followed because they are seen as natural, rightful, expected, and legitimate. Actors seek to fulfil the obligations encapsulated in a role, an identity, a membership in a political community or group, and the ethos, practices and expectations of its institutions. Embedded in a social collectivity, they do what they see as appropriate for themselves in a specific type of situation.

²⁰ «The process of lesson-drawing starts with scanning programs in effect elsewhere, and ends with the prospective evaluation of what would happen if a program already in effect elsewhere were transferred here in future. Lesson-drawing is part of a contested political process; there is no assurance that a lesson drawn will be both desirable and practical. The conclusion considers the uncertainty and instability of judgments about the practicality and desirability of transferring programs», R. Rose, *What is Lesson-Drawing?*, «Journal of Public Policy», No. 11, 1991, pp. 3-30.

and man-made Disasters), the flagship on support to Small and Medium-Sized Enterprises (SMEs) is the most relevant for sustaining the recovery and diversification of EaPs' economies. The SME flagship relies on a total budget of €34 mln.

The EU has funded three projects aimed at fostering the development of SMEs and improving the business climate.

1. East Invest is a regional investment and trade facilitation project with a total budget of approximately €9 mln.
2. Turn Around Management and Business Advisory Services – TAM-BAS is a technical assistance programme implemented by the European Bank for Reconstruction and Development (EBRD) and funded entirely by the EU with a budget of €10 mln.
3. SMEs Funding Facility Project consists of €15 mln as a risk sharing cushion to leverage loans for SMEs from European Financial Institutions.

East-Invest

Quality management, strategy and planning, personnel, communication and knowledge, clients and membership, and services, finance and accounting are the priority subjects in the East Invest Business Support Organisation (BSO) Exchange Facility, a benchmarking tool allowing business organisations from the EaPs to learn from their European colleagues through a short-term traineeship. East Invest supports economic development and facilitates regional trade by contributing to the improvement of the business environment, with an emphasis on SMEs and networking.

Main objectives:

To promote and facilitate the investment and economic cooperation at large between the EU and EaPs, and also between the six target countries.

To create the “East Alliance”, mobilizing business organisations from both sides to engage in a sustainable partnership and dialogue both within the private sector and towards the public authorities.

To develop concrete activities that will generate immediate results for SMEs in the region.

Among the initiatives: seminars for SMEs on EU acquis and Internationalisation; dedicated coaching for individual SMEs; study visits to specialised European trade fairs; Business-to-Business events during major European trade fairs, including sector-relevant; technical visits; investor fora in the EaP countries attracting SMEs and all relevant public and private organisations concerned with investment promotion. As for the BSOs: twinning (long-term partnerships) between the EU and EaP BSOs; individual exchange programmes for EaP BSO staff; “train the trainer” seminars on EU Acquis and Internationalisation; East Invest Academies offering dedicated management training; places for EaP BSO executives in EURO-CHAMBRES Academies; Consolidation of SME support networks through the East Alliance; annual conferences bringing together the project partners for networking and exchange.

TAM-BAS

The EBRD is taking part in the EU plan to promote Micro, Small and Medium-sized Enterprises (MSMEs) through both capital funding and business consultancy. The EBRD relies on two programmes – TurnAround Management (TAM) and Business Advisory Services (BAS) – which are supported by donor programmes. The two programmes aim at fostering good management in the SME sector by providing direct support to individual enterprises, thus helping them to grow their businesses. Both programmes are run on a not-for-profit basis. TAM is shaped to stimulate managerial and structural

changes and to diffuse international best practice to SMEs by engaging experienced international executives and industry experts as advisers.

The advisers work directly with the enterprise management and help introduce better management skills, as well as sharing their technical and commercial know-how. TAM experts might advise on production and design, financial management, sales and marketing, human resources, organisational restructuring, meeting international standards and obtaining certifications (accounting, environmental and so on), exploring export opportunities and energy efficiency. TAM projects typically last 18 months.

Business Advisory Service

BAS is targeted to offer MSMEs a number of consulting services. Direct assistance to enhance enterprise performance is combined with systemic market development to promote sustainable and commercially viable infrastructures of MSMEs. The main activity of BAS is to give grants to individual MSMEs to engage local consultants in specific projects in the Bank's countries of operations. BAS typically funds 50 per cent of the consulting project cost, up to a maximum of €10,000. Examples of services provided by local consultants include feasibility studies, computerizing management information systems and market analysis. These projects stimulate the demand for and an understanding of the potential benefits of using external consultants and help develop a more sustainable infrastructure for business advisory services in the Bank's region.

Close cooperation with EBRD banking

TAM and BAS aim to prepare enterprises for future investment, including potential EBRD-financed projects. In 2010, 23 TAM-BAS clients received €106 mln from EBRD investments and a further 18 reached the concept review stage. Also in 2010, a new strategy was agreed for these programmes to bring them fully in line with the EBRD's banking operations and its objectives.

As well as helping individual companies in each country, TAM-BAS also seeks to improve progress on cross-cutting objectives, such as energy efficiency, environmental protection and gender equality. For example, the TAM-BAS Women in Business initiative supports women entrepreneurs and women-run and women-owned enterprises, and over 15 per cent of TAM-BAS projects have been specifically targeted at supporting enterprises owned and/or managed by women. More information on each specific cross-cutting theme is available from www.ebrd.com/tambas.

TAM-BAS benefits from the development experience and expertise of donors. More than 20 bilateral and institutional donors have supported TAM-BAS with €226 mln in funding to date. The biggest single donor is the EU which has provided nearly €80 mln in funding. Both programmes work closely with donors to respond to specific needs in line with each donor's strategy. Donor funding has enabled the programmes to contribute to the EBRD's transition mandate, while donor involvement with local stakeholders and policy-makers has facilitated policy dialogue and transition impact in the countries of operation.

For the SME Facility, the EU allocated €30 mln from its budget. These funds should mobilise additional funds from other financial institutions including the EIB, the EBRD and commercial banks. The Prague declaration has called on the European Investment Bank (EIB) and the EBRD to join their efforts to increase financing assistance for SMEs in EaPs. The EIB and the EBRD have already responded favorably. Other FI/donors are invited to join. The Commission will work together with the banks to establish a facility combining grants and loans and aimed at enhancing the provision of funding to SMEs. The Commission supports the increase in the external mandate of the EIB for both the eastern and southern neighbours, as well as the extension of the EBRD mandate to selected southern Mediterranean countries.

The mandate regulating the Bank's operation in Eastern Europe allows it to provide loans to the countries of the Eastern Partnership and Russia of up to €3.7 bln in 2007-2013 with guarantees from the EU (although by the end of 2009 only 11 per cent of that sum had been mobilised for use). In the Eastern Neighbourhood, the EIB is focused on the transport, energy and telecommunication sectors, and also on financial support for SMEs. Operations in Belarus are subject to joint EU Parliament-Council decisions. Azerbaijan will also be eligible for EIB financing, following the signature of a framework agreement with the Bank.

Following the 2009 Prague Summit, the EIB, based on its own resources (with no contribution from EU budget) set up an Eastern Partners Facility (EPF), which is an additional financial instrument for supporting investment in Eastern Europe (including Russia) and the South Caucasus. It will serve the same countries as defined in the Bank's external mandate for the East, albeit for projects from different sectors to those listed in the original EIB mandate. The idea was to support EU investment in the region, notably from European companies, and to facilitate equity investments in infrastructure funds of interest to the EU, thereby further assisting the partner countries with their modernisation processes. €1.5 bln has been allotted to the EPF, with a ceiling of €500m for projects financed in Russia. In December 2010, the EIB launched the Eastern Partnership Technical Assistance Trust Fund (EPTATF). Its main goal is to increase the quality and development impact of EIB Eastern Partnership initiatives by offering technical assistance and further financial facilities to local partners. The EPTATF is managed by a Contributors' Committee which is obligated to meet once a year. EU Member States, beneficiary countries and third parties can contribute to the EPTATF²¹.

The Commission can also contribute to addressing high unemployment and poverty through pilot programmes supporting agricultural and rural development, as well as pilot regional development programmes, drawing on the

²¹ The EPTATF's objective is to enhance the quality and development impact of the Bank's Eastern Partnership operations. It achieves this by offering a multi-purpose, multi-sector funding facility for technical assistance. Technical assistance fills critical gaps for investment projects and develops capacity. The EPTATF supports capacity building through the financing of pre-feasibility and feasibility studies, institutional and legal appraisals, environmental and social impact assessments, project management and borrower support throughout the project implementation process, as well as financing upstream studies and horizontal institutional activities. Through these instruments, the EPTATF is a relatively flexible mechanism, capable of providing rapid support and of responding to the evolving needs of the EaPs. The EPTATF focused from the beginning on four priority sectors: energy, environment, transport and telecommunications, with climate change and urban development as cross-cutting issues. The Mid-term Review of the external mandate in 2011 resulted in a broadening of the Bank's sector-based remits in EaPs to include development of local private sector, social and economic infrastructure and climate change mitigation and adaptation. The orientation of the coming three years is to strengthen the Bank's lending activities in the region, acting to complement the existing instruments. Participation in the trust fund will enable contributors to provide a strategic input to the EIB in its undertakings to respond to new challenges in Eastern Partnership countries. So far, Austria, France, Latvia, Poland and Sweden have contributed to the trust fund and more countries are expected to join (see <http://www.eib.org/projects/regions/eastern-neighbours/instruments/technical-assistance/index.htm>).

EU's extensive experience in these fields²². Policy dialogue will continue on macro-economic governance and budgetary sustainability. This macro-economic dialogue will be enhanced with those partners that go furthest in their economic integration with the EU and will be based on a review of their macro-economic policies and key structural reforms. This will be accompanied by an enhanced dialogue on employment and social policies. The Macro-Financial Assistance (MFA) instrument may be mobilised to assist partner countries to address short-term balance-of-payments difficulties. In the short-term this is most relevant to those dealing with the immediate economic and social impact of the recent political changes.

3.6. The Russian Factor

Successful achievement of the economic goals of the EaP seems to be increasingly dependent on the competitive offers coming from Russia and on the engagement some countries are subscribing with Moscow. Russia aims to expand its Customs Union with Belarus and Kazakhstan, and this could potentially collide with the EU's plan for a wider European common market (stretching beyond the EU Member States). Russia is pushing Ukraine to join this Customs Union, which however would be incompatible with free trade with the EU unless the Customs Union also entered into a free trade agreement with the EU.

In December 2010, Russia, Belarus and Kazakhstan signed a document portfolio, establishing the "Common Economic Space". A month earlier, Putin had given a widely-noted interview to the German daily *Süddeutsche Zeitung*, in which he proposed establishing a "Common Economic Space" from Vladivostok to Lisbon. Putin has even proposed Brussels to formalise relations with the so-called "Common Economic Space" because Russia has surrendered national competence to a supra-national body on a range of questions. In the Russian President's view, the idea of the Eurasian Economic Union – if based on WTO rules – could lead to positive contributions to trade, prosperity and cooperation. Later, Putin launched the idea of a Eurasian Union, bringing together countries with which Russia shared strong ties. Russia is stepping up its efforts to establish a Eurasian Economic Union as a regional integration project.

In general, the idea of a free trade zone from Lisbon to Vladivostok may sound a faraway project, but there are increasingly practical arguments warranting that the EU respond with interest. The status quo is a messy collection

²² The scope of the ENP for Agriculture and Rural Development (ENPARD) included in the Communication "Partnership for Democracy and Shared Prosperity with the southern Mediterranean" – COM(2011)200 – will be expanded to also cover the eastern neighbourhood.

of competing and partly overlapping projects. Like the EU with its EaP, Russia also seeks to expand and deepen the Eurasian Economic Area with all willing former Soviet states. Neither the EU nor Russia contemplates free trade with China, but Russia can see a mechanism for economic modernization in free trade with the EU, and the EU is interested in economic alliances to face competition from China. One way to avoid friction between Brussels and Moscow over future partnerships of the post-Soviet states would be for the EU to add a free trade agreement with Russia – or presumably with the customs union of Russia, Kazakhstan and Belarus – to its expanding set of free trade agreements in Eastern Europe. Since Russia has now joined the WTO, the way is open for this.

Final Remarks

The economic component of the EaP is the most promising and advanced so far. The EaP economic offer comprises multilateral programmes, generally based on “soft tools” of cooperation involving both formal and informal actors, and more constraining bilateral agreements. This combination makes it possible to speed up negotiations that might otherwise stall, should only legally binding commitments be sought at a time when it is not convenient for the negotiating parties to make major commitments for political and/or economic reasons, but they still wish to continue their cooperation.

The EU has in any case foreseen for the Eastern partners the possibility of subscribing to a new advantageous agreement that in the long-run might allow them to benefit from participation in the European common market.

The DFTAs entail the abolition of trade barriers along with the adoption of selected parts of the *acquis communautaire*. This promotes the convergence and alignment of requirements, standards and regulations, but also practices and a common understanding of key issues. DFTAs are a mix of positive and negative integration dynamics. Although restricted to the economic sphere (the EU is recalcitrant as far as the opening of agriculture, some sensitive industrial sectors and the movement of workers are concerned), this new brand of agreement might well generate unintentional “contamination” effects on economics (deepening the scope of cooperation), politics and society. Their potentialities still need to be explored, while their end result is quite vague. While the general purpose and the conceptual background of DCFTAs seem to be clear, their exact content remains dependent on the interests of the negotiating parties, on factual implementation, and on the outlook of European integration itself.

One of the most contentious aspects for the effective functioning of DCFTAs is the *acquis communautaire* absorption capacity of the EaPs. To what extent can the EU push the *acquis* without the promise of the member-

ship? And other tricky situations may arise. For instance, the EU may have well-underestimated the degree to which national regulation needs to be harmonised or transferred to Union level. In other words, are the DCFTAs going to work, relying mostly on the legislative convergence of the EaP countries, or will dysfunctions hamper the advancement of the process and determine its failure? Furthermore, while a DCFTA can smooth out some of the transformation problems, it cannot however orient high level political reform (justice or democratic rules). The spill-over logic has limits when moving towards the hard core of government politics and policies.

The future of DCFTAs is crucial for the entire success of the EaP. As long as the economic expectations of the Eastern partners are fulfilled, their trust in the EU will be strengthened. The EU should be generous and far-sighted enough to concede more to its partners by finding the right mix between values and interests and keeping in mind that the post-Soviet space is becoming very competitive.

4. Eastern Partnership Framework: Border Security

Michela Ceccorulli

Introduction: Relevance of the Issue from EU Perspectives

In recent years, border security has turned to be one of the main objectives of the European Union. The concept has increasingly gained currency in accordance with two main developments: on the one hand, the progressive process of European integration and European external projection. On the other hand, the gradual emersion and relevance of transnational challenges able to impact on European Union's security and stability. Yet in 2003, the EU was eager to acknowledge in its External Security Strategy (ESS) that the roots of its security were to be found outside its perimeter¹; the Internal Security Strategy of 2010 further underlined the link between external and internal dynamics and conferred a special role to border security as an end to pursue, to partly make up for the porosity of external borders². Thus, the European Union found itself to modulate the steps of its global "actorness" exerted via waves of enlargements with the increasing need to come to terms with the new neighborhood and new regional settings, so as to properly address the potential challenges arising from these contexts. It is against this background that the Union has opted for and developed through time a tailored policy context thought for its eastern partners, culminated in 2009 with the signing of the Eastern Partnership. Among others, issues related to border security figure prominently in this new framework of relations combining bilateral and multilateral provi-

¹ European Council, *European Security Strategy. A secure Europe in a better world*, Bruxelles, 12 December 2003.

² European Commission, *The EU Internal Security Strategy in Action: Five steps toward a more secure Europe*, COM(2010)673 final, Bruxelles, 22 November 2010.

sions. Within this context, relations with Azerbaijan assume a special relevance, due to the strategic position of the country and its role in a region at the crossroad of multiple potential challenges.

While a lot remains to be done, it is paramount to shed light on the development of the specific policy setting framed around the security of borders in relations with eastern partners, with a particular focus on the country under investigation in this book. First section of this chapter focuses on “border security” and the relevance of the concept both for the European Union and for the general aim of this book. The second section delves into how the Eastern Partnership gradually emerged from previous frameworks of relations, considering the specific role played by border security and related issues as matters for discussion. The third section focuses on the achievements regarding the main topics proposed by the Partnership. The fourth section concludes highlighting the shortcomings to be addressed to upgrade the Partnership.

4.1. Border Security for the European Union and the Role of Azerbaijan

“Border security” has become a catchword in main documents related to security and stability. Almost all states refer to the security of borders as one of the main objectives in their national strategies³. Indeed, this is particularly due to the progressive appearance or to the growing pressures exerted by transnational challenges such as international terrorism, organized crime and illegal migration, able to overcome national borders and able to defy traditional functions associated with state sovereignty, such as to decide who and under which conditions is allowed to enter the domestic space. Similar among these challenges is the function of mobility as a factor of propagation, which allows exploiting both legal and illegal interstices available. Thus, these challenges have always been considered as interrelated, given that, for example, illegal migration could also serve organized crime or international terrorism purposes. In this sense, the security of borders implies finding out provisions, tools and instruments to watch for and monitor activities or persons potentially crossing frontiers. Recently, for example, a risk-based approach has broadly been adopted so as to foresee potential challenges arising, while technology has increasingly been conceived a paramount tool for border control purposes. Given that frontiers are always shared, achieving border security also implies envisioning a political dialogue and setting up more or less formal modalities of relations with other countries, so as to maximize the effectiveness of specific policies undertaken.

³ See for example The White House, *National Security Strategy*, May 2010.

The concept of “border security” intended as an end in itself is thus different from “border management”; this latter concept only partially overlaps with the first one and specifically refers to the governance modalities put in action to achieve a set of variegated ends. On this point of view, the concept of Integrated Border Management (IBM) is of the paramount importance for the European Union to achieve border security. For the EU, IBM stands for «combining control mechanisms and tools, based on the flows of persons into the EU. It involves taking measures at the consulates of the Member States in Non-EU Member Countries, measures in cooperation with neighbouring Non-EU Member Countries, measures at the border itself, and measures within the Schengen area»⁴.

If transnational challenges constitute a widespread concern among international actors, the European Union finds the ability of these threats to overcome borders particularly troublesome. This is due to its own objective to embody a space of freedom, security and justice without internal barriers, objective that contributes to its own development as a would-be new and different actor in the global scene. In such a space, the external border acquires a peculiar importance, because once entered, challenges can easily propagate throughout the territory of the Union. Achieving global “actorness” means also projecting the own power and model abroad, aiming not only at being a fruitful example of integration for other regional contexts but also at promoting policy developments that accommodate own security, stability and prosperity exigencies. This is more so given the acknowledgment that potential challenges have their roots outside of EU’s borders.

Thus, progressive waves of enlargements have been considered both as a distinctive and unique foreign policy tool and as a strategy to dilute potential tensions destabilizing EU’s security and stability. Nevertheless, new members make new borders, new frontiers and different contexts to come to term with. Last waves of enlargement to the East have brought the European Union close to spaces characterized by political, economic and social instabilities and yet only poorly taken into account by previous EU’s strategies. Deprived of the Soviet equipments, these countries’ performances on border management are only beginning to surface, a fact that urgently requires the European Union to take more decisive steps in relations development. It is against this background that relations between the European Union and eastern partners have acquired a new relevance and attempts have been made to upgrade existing patterns of dialogue transforming them in new and more promising settings of cooperation.

⁴ Europa 2008, http://europa.eu/legislation_summaries/justice_freedom_security/free_movement_of_persons_asylum_immigration/114580_en.htm.

Azerbaijan has come to represent a strategic country with a view to facing potential transnational challenges⁵. This acknowledgment has been increasingly reported in the many EU documents emphasizing the need to deepen and improve relations with eastern countries. For a long time, EU's first concern with the country regarded the situation of the Nagorno-Karabakh; instead, the United States came to appreciate Azerbaijan's strategic contribution to security as early as the 11 September terrorist attacks. In fact, Azerbaijan granted overflight rights and landings and refuelling operations at the Baku airport in support of operations in Afghanistan, while the country still plays a fundamental role in the ISAF (International Security Assistance Force) mission⁶. Relations are also longstanding with NATO; the country joined the Partnership for Peace in 1994 and signed in 2005 an Individual Partnership Action Plan (IPAP) with the Alliance.

It is indeed Azerbaijan's geographical collocation that renders border security one of the leading concerns related to the country. This latter shares borders with Russia and Iran; Azerbaijani authorities have launched the alarm of possible Islamic fundamentalist infiltrations both from Dagestan and the Northern part of Iran⁷. Not only that, though. Aside from the fear of transnational challenges, mobility is also an issue in relations with the two countries given that around 2 millions Azerbaijanis live and work in South Russia, while as much as 15 millions live in North Iran. Assuring good relations as well as safe and secure flows is thus paramount for stability and for the economic development of the country, given the share of remittances sent back from abroad.

While leading to a situation of general instability in the region, the conflict over the Nagorno-Karabakh has also had repercussions on the ability of the country to deal with the persons forcibly displaced out of the conflict. According to Azerbaijani estimates, the unrests produced more than 200 thousand refugees and 576 thousand internally displaced persons⁸. To these, refugees and asylum seekers from Afghanistan, Chechnya and Iraq are to be added⁹. Hence, Azerbaijan needs all the support in developing the capabilities necessary to face the situation while keeping up with international standards, to improve protection capacities and avoid that the lack thereof can turn in other sources of turmoil with other states. More to that, the South Caucasus

⁵ C. Frappi, *Motivazioni e ricadute delle nuove direttrici di politica estera dell'Azerbaijan*, ISPI Analysis No. 15, 15 June 2010.

⁶ J. Nichol, *Azerbaijan: recent developments and US interests*, CRS Report for Congress, Congressional Research Service, 30 August 2011.

⁷ *Azerbaijan, Atlante geopolitico 2012*, Milano, ISPI-Treccani, 2012.

⁸ UNHCR, «Assessment of the IDP situation in Azerbaijan and cooperation mechanisms in place to address their needs», UNHCR-OCHA Mission to the Republic of Azerbaijan, RLSS Mission Report 2005/10, Genève, 14-24 March 2005.

⁹ *Ibidem*.

and Central Asia as regions pose particular problems as far as trafficking in human beings, drugs and illegal immigration and dual-use commodities are concerned¹⁰. In November 2011, Azerbaijan hosted an international workshop under the auspices of NATO on “Border security and combating the drug distribution”, focused on improving border control systems to deal with transnational challenges. While not a major drug producer, Azerbaijan is recognized to be a transit route for drug from Afghanistan: from this point of view, also the maritime borders of the Caspian Sea are to be carefully patrolled and their security improved¹¹.

4.2. The Eastern Partnership as a Step Forward in Neighborhood’s Relations: Border Security and Related Topics

It is wrong to state that the Eastern Partnership has inaugurated a brand-new framework of relations with partners on the East and Azerbaijan in particular on the issue of border security. Yet in the ’90s, the European Union started to acknowledge the importance of building up relations with post-Soviet space countries. Nevertheless, the South Caucasus was put on the back-burner compared to other regional settings, especially those hosting states to potentially become new members, to whom specific requirements on capacity-building and adherence to European standards on border management and controls were soon asked¹². Azerbaijan and the South Caucasus in general were mainly considered because of the presence of ethnic and interstate conflicts creating instability and displacing thousands of persons across borders. It was only in 2003 that a Special Representative for the Southern Caucasus was appointed, while a delegation office in Baku, the Azerbaijan capital, only opened in 2008.

In 1999, the European Union and Azerbaijan signed a Partnership and Cooperation Agreement providing an important instrument of political dialogue, which still represents the main legal framework for relations between the partners. As far as progressive processes of enlargement unfolded and the EU’s border was gradually brought to the East, the necessity arose to improve relations with the new neighbors in a regional context almost unexplored by the EU (differently from other powers such as Russia and the United States with yet established interests in the region). Thus, if a European Neighborhood Policy (ENP) Strategy Paper was drafted in 2004 to specify the orientations of relations with neighbor countries for the years to come, it was on June

¹⁰ *Osce efforts to strengthen border security and management in South Caucasus*, OSCE Newsletter, Issue 5, March 2009.

¹¹ J. Nichol, *Armenia, Azerbaijan and Georgia: security issues and implications for US interests*, CRS Report for Congress, Congressional Research Service, 31 January 2008.

¹² M. Ceccorulli, *Security and Migration: the development of the Eastern dimension*, «European Security», Vol. 19, No. 3, 2010, pp. 491-510.

2004, that the decision was taken to encompass Armenia, Azerbaijan and Georgia in the ENP¹³. In fact, with 10 new Member States the EU found itself much closer to this regional setting, a fact that required a new stage of relations. Indeed, the perception that a season of strengthened partnership was mutually beneficial was shared by the partners: on the one hand, the EU hoped to go on with the objective of stability, security and prosperity as the main guiding line of its external strategy. On the other hand, potential partners were eager to improve their economic situation through cooperation opportunities with the EU as well as to define an own political stance, exploiting their increasingly important geo-strategic position. Thus, the European Union promised to offer a stake in its internal market and further economic integration as incentives for cooperation. The Action Plans signed within this framework covered a time-frame of five years. The main aim was to pursue the approximation of national legislation, norms and standards to those of the European Union¹⁴.

Against this background, among the objectives of the EU-Azerbaijan Action Plan (2006) was to establish a dialogue on matters related to the movement of people between the partners including readmission and visa-issues, while priority was attached to the enhancement of cooperation in the field of Justice, Freedom and Security, including the field of border management¹⁵. Specifically, the EU asked to develop an IBM strategy by 2006 and to improve relations among agencies operating in the field of border management. Deepening the understanding of Schengen rules and standards was strongly auspicated, while capacity-building provisions and training exercises were aimed at improving the efficiency and reliability of border agencies and trans-border activities. Also, utmost relevance was conferred to regional cooperation on border issues, clear frontier demarcation and proper implementation of already existing bilateral agreements on border co-operation with Georgia, Iran, Russia and Turkey. Azerbaijan was also advised to implement or advance legislation on trafficking in persons, organized crime and migrants smuggling. Finally, migration was a privileged argument for cooperation, covering issues related to legal and illegal movements and asylum. Thus, Community Programs such as AENEAS and from 2007 the ENPI (European Neighbourhood Partnership Instrument) (through national, transnational, regional, cross-borders and thematic components) were to be used to promote actions in this direction, while the sharing of information and best-practices on above matters was

¹³ European Commission, *European neighbourhood policy, Recommendations for Armenia, Azerbaijan, Georgia and for Egypt and Lebanon*, COM (2005) 72 final, Bruxelles, 2 March 2005.

¹⁴ European Commission, *Proposal for a Council Decision*, COM(2006) 637 final, Bruxelles 26 October 2006.

¹⁵ *Ibidem*.

strongly encouraged¹⁶. The question of asylum, refugees and internally displaced persons (IDPs) in particular was of the fundamental importance, given the huge number of IDPs within Azerbaijan and the attention paid by the Union to such issues. The argument was also made for the improvement of people-to-people contacts to be especially encouraged through student mobility programmes. A clear interest in deepening relations on border security and mobility was therefore clearly established well before the signing of the Eastern Partnership.

And yet, in the National Indicative Programme 2007-2010 for Azerbaijan, programme that defines in great details and in practical terms the priorities to be promoted under the ENPI, only a marginal attention was devoted to border security and mobility in general¹⁷. Instead, a renovated attention to these matters is clearly noticeable in the second National Indicative Programme, the one covering 2010-2013 and focusing on mobility and security. The association of mobility and security noticeable in the document, mirrors an understanding developed by the Union in recent years, one that has ignited a broad theoretical and empirical debate among scholars and practitioners. On the one hand the Union aims at increasing opportunities for mobility, especially to compensate for its demographic decline and to make up for the shortages in its labour market. In this sense, mobility is a paramount resource for the EU with a view to its future competitiveness¹⁸. On the other hand, and as introduced above, mobility increases the likelihood of potential challenges to propagate; this is especially so if there exists a geographical proximity with strongly instable contexts. Thus, border security has gained increasing currency by the association established between mobility and security.

The National Indicative Programme 2010-2013 for Azerbaijan¹⁹ is strongly permeated and influenced by the relation between mobility and security as established in leading documents produced in last years and referring to the EU internal security, such as the Stockholm Programme or the Internal Security Strategy of 2010. In fact, the 3rd priority of the Indicative Programme, together with energy security, refers explicitly to the exigency of improving border management, migration and asylum systems and, fighting trafficking and organized crime at the borders. In a similar way, it strongly derives from and refers to the Eastern Partnership, signed in 2009, of which it aims to be a complementary and reinforcing instrument. In accordance with the EU's aim

¹⁶ European Commission, European Neighbourhood and Partnership Instrument, *Azerbaijan, Country Strategy Paper 2007-2013*, 2006.

¹⁷ European Commission, European Neighbourhood and Partnership Instrument, *Azerbaijan, National Indicative Programme 2007-2010*, 2006.

¹⁸ European Commission, *Europe 2020*, COM(2010) 2020 final, Bruxelles, 3 March 2010.

¹⁹ European Commission, European Neighbourhood and Partnership Instrument, *Azerbaijan, National Indicative Programme 2011-2013*, 2010.

at foreseeing potential challenges related to mobility in the future, it adopts an approach based on “risk analyses”²⁰.

The Eastern Partnership derives from all initiatives aimed at deepening relations with neighbouring countries in the East and tries to strengthen those issues not properly addressed yet. It represents a sort of hub around which to encompass all approaches to make them work sinergically and aims at progressively overtaking the ENP. It has been conceived as a set of relations covering a specific geographic dimension of the broader European Neighborhood Policy, one compensating for the large attention devoted to Southern partners across the Mediterranean, attention culminated in 2008 with the setting up of the Union for the Mediterranean. In fact, given the increasing illegal flows across the Mediterranean as well as the casualties related to these attempts, a peculiar attention has been devoted to envisioning strategies aimed at either readmitting migrants or building up capabilities on border control in main origin and transit countries. And yet, a progressive awareness developed on the necessity to strengthen relations also with non-members partners to the East, namely, Armenia, Azerbaijan, Belarus, Ukraine and Moldova on the basis of «mutual interests and commitments as well as on shared ownership and responsibility»²¹. In particular, the Ukraine gas crisis of 2008 emphasized how turmoil in the region could have impacted on European security and prosperity; thus, it was explained, «we are not only investing in the economic and political stability of these countries but also in our own well-being»²². In a similar way, the conflict in Georgia in 2008 highlighted the necessity of an EU’s improved role in the region for security reasons. At Prague, EU Member States and eastern partners agreed on the common objective to accelerate political association and economic integration so as to promote the stability, prosperity and security of the “entire European Continent” – in which Eastern partners were thus (at least verbally) encompassed –²³. Speaking of Azerbaijan as part of the European Continent has inevitably changed the expectations attached and the relevance normally devoted to the country.

An important facet of the Eastern Partnership is dedicated to mobility and security, both at the bilateral and the multilateral level, the two building blocks of cooperation with partners. Bilaterally, the emphasis is on enhancing citizens’ mobility and on visa liberalization in a secure environment, that is promoting the conditions under which mobility can only create positive opportunities for both partners without security challenges, among which illegal

²⁰ *Ibidem*.

²¹ European Council, *Joint declaration of the Prague Eastern Partnership Summit*, 8435/09 (Presse 78), Bruxelles, 7 May 2009.

²² B. Ferrero-Waldner, *Eastern Partnership Ambitious Project for 21st century European Foreign Policy*, 20 February 2009.

²³ European Council, *Joint declaration of the Prague Eastern Partnership Summit...*, cit.

immigration. In this sense, a secure environment is one that is provided with the instruments and the measures to monitor and eliminate potential threats (secure travel documents, arrangements for the readmission of returnees and proper measures and procedures at the borders). Contacts among people and cooperation among institutions are also considered to be important features to develop to strengthen the civil society and to improve common understandings and close relations among partners²⁴.

If the bilateral track represents the backbone of cooperation with selected countries, the Eastern Partnership has been organized to work also through a multilateral framework of relations. Indeed, the promotion of relations among partners in the same region does not only replicate the EU's experience and thus is not only to be considered as an original and distinctive foreign policy tool. Instead, it is conceived as a necessary measure to promote growth and dilute security tensions. Especially in the case of mobility and border security, working jointly is an indispensable condition to properly address potential transnational threats. This is the reason behind the envisioning of "thematic platforms" mainly devoted to discussions, experience sharing, best practice exposure and EU's legislation and standards presentation on main areas of cooperation, among which on Justice, Freedom and Security and contacts between people (the Erasmus mundus programme, for example, stimulates the mobility of individual students). In addition, flagship initiatives are multilateral tracks of cooperation to address specific areas of interests, among which emerges "Integrated Border Management". With a budget of around €44 million this latter initiative focuses on the training and capacity-building development of partner countries, the improvement of border management and the detection of drugs and smuggled products²⁵. If assessing what has been practically done in the field of border security within the framework of the Eastern Partnership can look premature, as capacity-developments take some time to occur, it is instead possible to see the programmes already activated as well as the achievements reached in this domain. Next section is thus dedicated to this analysis.

4.3. Border Security as a Stepping Stone of the Eastern Partnership: the State of the Art

As seen in previous sections, the Eastern Partnership represents the most advanced form of cooperation with countries in the East, one that is constantly monitored and re-calibrated so as to pave the way for more far-reaching

²⁴ "Eastern Dimension of mobility Conference", Conference Conclusions, Warsaw, 6-7 July 2011.

²⁵ European Commission, *EU cooperation for a successful Eastern Partnership development and cooperation*, ENPI Infocenter, EU 2012.

achievements. As also stated, border security and mobility have assumed a paramount relevance within this context because of the importance they have acquired for the EU as features able to impact on its security and prosperity.

Throughout time, achievements reached through specific programmes and policies have been different according to selected countries, while regional strategies have been hard to develop, given the grievances still persisting within the region. If multiple fora for discussion that would accommodate European objectives on border and security and mobility in the East exist, thus far it has been hard to make these latter talk together. The Söderköping process, created in 2001, aims at sharing experiences on asylum, international protection, migration and border management among some EU countries and Moldova, Ukraine, Belarus, Azerbaijan, Armenia and Georgia. The Prague Process, operating on the basis of the joint declaration of 2009 “Building Migration Partnership”, discusses migration and border issues among 49 EU Member States, eastern and south-eastern European countries, Central Asian countries and some Organizations and initiatives such as FRONTEX (European Agency for the Management of Operational Cooperation at the External Borders of the Member States of the European Union), the IOM (International Organization for Migration), the UNHCR (United Nations High Commissioner for Refugees), the ICMPD (International Centre for Migration Policy Development), EUROPOL (European Police Office) and MARRI (Migration, Asylum, Refugees Regional Initiative)²⁶. A consultative Forum on orderly migration is then represented by the Budapest Process, composed by more than 50 governments and 10 international organizations exchanging best practices and sharing information, among which are EU Member States and Eastern partnership members. Set up in 1991 by Germany and at its third phase, the Budapest Process is increasingly projected towards the “Silk Route region”, of which the South Caucasus is a corridor. The EU has also developed the programme “Black Sea Synergy”, engaging countries surrounding the Black Sea and proposing initiatives among others on migration and the fight against organized crime. Figuring out ways through which these approaches can dialogue and enrich each other is a major objective of the Eastern Partnership.

As seen above, matters related to border security have been regularly inserted in cooperation patterns and regional strategies with countries in the South Caucasus. This was perceived as increasingly more relevant not only because of the new proximity to the Union after the enlargement processes, but also because Armenia, Azerbaijan and Georgia have repeatedly exhibited poor relations among them (though at different degrees). In fact, smoother relations would allow facing opportunities and challenges in different issues areas, such

²⁶ Established in 2003, MARRI is part of the Stability Pact for South Eastern Europe and is aimed at dealing with the issue of migration management in the Western Balkans.

as trade, international terrorism, transnational organized crime and illegal immigration²⁷. This was the idea behind an EU assistance programme (implemented by the UNDP) aimed at supporting the European Integrated Border Management concept and systems in the South Caucasus (SCIBM). This 2.5 years programme, launched in this region in 2009, was thus undertaken to maintain “open but secure borders”. It was promoted in cooperation with the International Center for Migration Policy Developments to complement yet existing border management programmes implemented in Moldova, Ukraine, Belarus and Central Asia. It was based on the adoption of IBM standards and the development of national strategies calibrated on EU’s standards and foresaw training activities; the introduction to European good practices for those working in the border management sector and, due to resilient frictions, only bilateral cooperation activities between partners having friendly relations (that is Azerbaijan-Georgia).

If border security is an end to pursue, visa liberalization, that is enhanced mobility, has started to represent a long-term goal in relations with Eastern countries, especially within the framework of the Eastern Partnership²⁸. Visa facilitation agreements together with readmission agreements have already been signed with Georgia in 2010 (entered into force in 2011) with Moldova and with Ukraine in 2007 (broader Visa Facilitation Agreements with these latter have been launched in May 2011). The easing of movement is attached to the possibility to readmit persons illegally crossing borders or having lost the right to stay in the national territory. Visa-facilitation agreements will represent future matters of negotiation with Belarus, while talks have been launched in March with the Republic of Armenia and Azerbaijan. Dialogues on visa-free regimes have been launched with Ukraine and the Republic of Moldova²⁹. In accordance to the Global Approach to migration³⁰, Mobility Partnerships have been established with Moldova, Georgia and Armenia (this latter in October 2011), while the opportunity to advance them for other countries (among which for Azerbaijan) is under investigation³¹. Mobility Partnerships are to be intended as political frameworks to better manage migration flows by fighting illegal immigration while enhancing opportunities for legal migration,

²⁷ European Commission, EC Programme supporting integrated border management systems in the South Caucasus (SCIBM), Annex 1, ENPI East Regional Programme 2007.

²⁸ Enhanced mobility in a secure environment is one of the three priorities guiding the Roadmap for the Eastern Partnership Summit of Autumn 2013 (European Commission 2012).

²⁹ European Council, *Joint declaration of the eastern Partnership Summit*, 14983/11 (Presse 341), Warsaw, 29-30 September 2011.

³⁰ The Global approach to migration, formalized in 2005, represents the external dimension of the European Union’s migration policy and is to be considered as the leading understanding applied to the regulation of flows, that takes in due consideration the multiple facets of the phenomena, such as illegal immigration, increased mobility opportunities but also the prospect of developments for origin and transit countries.

³¹ European Commission, *EU cooperation for a successful eastern Partnership development and cooperation*, ENPI Infocenter, EU 2012.

taking also into account the connection between migration and development. As far as Georgia, Azerbaijan and Armenia are concerned, negotiations on the signature of Association Agreements, as auspicated in the Eastern Partnership have been launched in 2010 (thus far, more negotiation chapters have been closed with Armenia), while specific subcommittees on Justice, Security and Freedom have been established in 2008 for Georgia and in 2010 for the other two countries, favouring discussions on Home Affairs.

2011 has been an important year as far as issues related to borders and mobility are concerned. Indeed, attention was firstly pointed at the events of the so-called “Arab Spring” in the Mediterranean and the Middle East, igniting a new thinking on relations with third states. The objective was to develop more far-reaching and far-looking approaches to regulate flows and borders. A special reference was made to societies, engine of the Southern Mediterranean upheavals³² and to be more successfully engaged also in relations with Eastern partners³³. It was among the main objectives of the “New Response to a Changing Neighborhood” to strengthen the Eastern Partnership with its bilateral and regional tracks. Mobility and migration figured prominently in the document, with a renewed emphasis posed on people-to-people contacts, likely to foster mutual understandings, to allow the exchange of ideas, to spread innovation, to face social and employment issues and to establish relations among companies, universities and the respective civil societies³⁴. Accordingly, the enhancement of mobility opportunities has been strongly related to an increased probability of economic development. Also, attention was paid on facing irregular immigration so as to improve security, and Mobility Partnership were further encouraged as instruments of the new Global Approach to Migration and Mobility (GAMM). This latter approach conferred a particular relevance to enhancing mobility, preventing and reducing irregular migration and trafficking in human beings, promoting international protection and maximizing the development impact of migration and mobility³⁵. Flagship initiatives undertaken under the Eastern Partnership were said to be adapted to better support bilateral partnership objectives: for example, it was reported, activities under the IBM flagship were to be used to promote the development of

³² European Commission, *A new Response to a changing Neighbourhood*, COM(2011)303, Bruxelles, 25 May 2011.

³³ European Commission, *On cooperation in the area of Justice and Home Affairs within the Eastern Partnership*, COM(2011)564 final, Bruxelles, 26 September 2011.

³⁴ A Work Programme 2012-2013 for Platform 4 on “Contacts between people” has been adopted in October 2011 with the aim of expanding cooperation on education, youth, research and innovation, culture, audio-visual sector, information-society, mobility of students, researchers, and academics to build to build a “Common knowledge and innovation Space” with the Eastern Partnership countries.

³⁵ European Commission, *The Global Approach to migration and mobility*, COM(2011)743 final, Bruxelles, 18 November 2011.

conditions for visa facilitation and liberalization; in this way, the multilateral framework could significantly improve the bilateral one³⁶.

In a recent document describing the terms of cooperation on Justice and Home Affairs (JHA) matters within the Eastern Partnership the need is expressed to consolidate, streamline and complement yet existing frameworks of relations much more than envisaging new ones so as to set up “a Common JHA Space between the EU and its Eastern partners”³⁷ working on the basis of differentiation, conditionality, policy coherence and regional cooperation. Bilaterally, the document specifies, cooperation within the Eastern Partnership on Justice and Home Affairs should ideally be based on the signing of Association Agreements; the promotion of committees on readmission and visa-facilitation; Mobility Partnerships; cooperation on “high priority areas” such as organized crime, trafficking in human beings and human rights issues and drugs and on the cooperation of third countries with the activities of relevant agencies such as FRONTEX and EUROPOL. At the regional level, the objective is expressed to include the achievements of Söderköping Process in the multilateral basket of the Eastern Partnership so as to improve cooperation and dialogue on migration issues (European Council 2011) and to contribute to the creation of a new Panel on Migration and Asylum facilitating the sharing of best practices and the exchange of information. Eastern Partnership “thematic priorities” have been collected under the heading “migration, mobility and asylum”, with a special attention attached to data collection and harmonization; legal migration opportunities; reduction of remittances costs (so as to further use them as a source of income); capacity-building developments on the fight against irregular migration and the management of returnees; promotion of visa dialogues for the establishment of visa liberalization and functioning asylum and protection capabilities development (along the lines of the Regional Protection Programme covering Belarus, Moldova and Ukraine). Integrated Border Management is another priority for the future of the JHA cooperation with eastern partners; a telling example in this case is represented by the EU Border Assistance Mission (EUBAM) for Ukraine and Moldova and the SCIBM for the Southern Caucasus. On this matter, capacity-building as well as the adoption of national Integrated Border Management strategies assume a special relevance. Further cooperation with FRONTEX, the leading agency dealing with borders in the EU, is strongly auspicated. The agency has already signed agreements with Moldova, Georgia, Ukraine and Armenia and Belarus and works to sign one with Azerbaijan. Public order and security are considered regional priorities to advance EU’s internal security. In this case, attention is devoted to travel and identity documents, trafficking in human be-

³⁶ European Commission, *A new Response to a changing Neighbourhood...*, cit.

³⁷ European Commission, *On cooperation in the area of Justice and Home Affairs...*, cit.

ings and the fight against organized crime³⁸. For this reason, the EU provides funds for a multi-year anti-trafficking project in the South Caucasus implemented jointly by the ICMPD, the International Labour Organization (ILO) and OSCE³⁹.

As for Azerbaijan more specifically, the European Commission has proposed to open negotiations on September 2011 on an agreement to facilitate the issuing of short-term stay visa (simplification of documentary evidence, possibility of issuing multiple-entry visas with a long period of validity, reduction of fees for specific categories of travelers, establishment of a deadline for visa processing applications, possible visa exemption for diplomats) and on the readmission of irregular immigrants⁴⁰. The measures are to be linked to the broader objective to improve contacts between people as asserted in the Eastern Partnership platforms.

As already reported, a hot issue in Azerbaijan has always been represented by the huge number of internally displaced persons, refugees and asylum seekers. Thus, the European Commission has funded an initiative, "Strengthening Protection Capacity Project-Southern Caucasus" (SPCP-SC), which complements objectives already reported in the ENP framework and guiding relations between the European Union and Azerbaijan. Implementation of the project is conferred to the UNHCR that produces reports on relevant gaps on protection in collaboration with the State Migration Service and the IOM⁴¹. The agency provides equipments and offers training programmes and information for government officials on the legal framework governing migration; refugee protection and access to asylum procedures; durable solutions for refugees; the role of Azerbaijan as a transit country for flows to the West, citizenship issues; reception standards and readmission agreements. The idea is not only to approximate Azerbaijan's standards to European and international ones: addressing the situation of these people is believed to be a paramount step to calm down frictions within the country and with states on the borders, as well as to contribute to address the still frozen situation of the Nagorno-Karabakh, of which the return of refugees is as a key matter for negotiations. This could be an important venue through which the European support could be judged as valuable in conflict management and resolution attempts. This could also enhance EU's stance in the region. For example, MIGR 2009, Project on the Local Integration of Refugees and Asylum Seekers in Azerbaijan, started in 2010 goes exactly in this direction.

³⁸ *Ibid.*

³⁹ OSCE efforts to strengthen border security and management in South Caucasus..., cit..

⁴⁰ European Commission, *The Commission proposes to open negotiations on visa facilitation and readmission agreements with Azerbaijan*, Press Release, Bruxelles, 19 September 2011.

⁴¹ UNHCR - European Commission, *Azerbaijan: Analysis of gaps in the protection of Internally Displaced Persons (IDPs)*, October 2009.

Conclusions: Accomplishments, Shortcomings and the Way Forward

The aim of this chapter was to shed light on the development of relations between the European Union and countries to the East in the field of border security and mobility. A particular attention has been devoted to the Eastern Partnership, the most advanced and encompassing framework guiding cooperation with eastern partners, among others, with Azerbaijan. This latter country, together with the regional context to which it pertains, has increasingly assumed a leading importance for the European Union after the enlargement waves and a mounting relevance of transnational challenges such as terrorism, organized crime and illegal immigration, proliferating here.

The chapter has underlined the attention paid by the European Union to the issues of border security and mobility in relations with eastern countries; indeed, this goes hand in hand with an apparent prioritization of these matters in documents related to European security. Also, the issues seem to be of interest to eastern partners given the opportunities open to get closer to the European space and to hope for a new season of political stability and economic growth. And yet, coming to a definite conclusion about the policies undertaken looks as premature: although aiming at encompassing previous patterns of cooperation, the overall packet of measures has yet to be fully implemented, while incessant modifications to the main approach are ongoing, suffice to recall the recent attention paid to the civil society after the Arab Spring or the indications delivered by the New Global Approach to Migration. More to that, an approach prominently based on capacity developments such as the one adopted by the Eastern Partnership needs time to take ground and more so to be positively or negatively assessed.

Notwithstanding that, it is possible to underline some aspects that should be potentiated as well as some weaknesses in the approach undertaken. Not all Eastern countries face the same level of cooperation with the Union; while this perfectly mirrors the conditional strategy of the EU, this situation can also shrink the space for cooperation among states in the region. As a matter of fact, multilateral cooperation on border issues seems to be the most promising way to both meeting EU's and eastern countries' objectives, as this can dilute some of the tensions still characterizing this regional context, can increase mobility and thus encouraging economic growth and can help address properly those transnational challenges requiring effective cooperation among border countries. Hence, more attention has to be paid to regional initiatives as well as to ways to better amalgamate the outcomes and achievements of the multiple fora available on borders and mobility.

As far as relations with Azerbaijan are concerned, neither visa liberalization nor a Mobility Partnership, which look as the most promising ways to come to term with a third country, are yet in force. Increasing mobility oppor-

tunities as well as contacts between people is a suggested path to build relations on proper grounds. On this side, the EU should effort at partly modifying its traditional approach, visibly based on security concerns regarding inflows into the Union. An agreement with FRONTEX would significantly help develop and strengthen those capabilities necessary to watch over own borders and would improve risk-assessment analyses as encouraged by the European Union. The Union should also pay attention to the issue of refugees, asylum seekers and internally displaced persons, as these categories of persons are of particular relevance for the EU as a global actor. This would also allow the improvement of other actors' perceptions on Azerbaijan's democratic credentials. Thus, helping develop protection measures compatible with international standards should remain a leading objective of EU-Azerbaijan relations. Finally, the EU should also engage in the activities concerning the conflict resolution measures to lift the hindrances in border cooperation between partners and standards implementation in respective states.

While overlooked for long time, Azerbaijan needs to receive increasing attention by the EU, as the new funds announced in August 2012 and related to justice and migration seem to suggest. A number of instruments will be mobilized to implement measures related to borders and mobility. Among others, are twinning operations between EU and Azerbaijani institutions and technical assistance and cooperation with international organizations under the Comprehensive Institutional Building Programme, fundamental this latter to set the basis for an EU-Azerbaijan Association Agreement, included the process of visa liberalization and the readmission dialogue⁴².

⁴² European Commission, *European Commission announces support for justice and migration in Azerbaijan*, Press Release, Bruxelles, 23 August 2012.

Part II

Role of Azerbaijan in the Framework

5. Eastern Partnership and Azerbaijan: Background and Expectation of Cooperation

Gulshan Pashayeva

Introduction

After the dissolution of the USSR in 1991, Azerbaijan regained its independence together with other three South Caucasus countries¹. Despite several challenges – building a stable nation-state and effective market economy, strengthening national security, promoting democracy and rule of law, resolving the ethno-territorial conflict with neighbouring Armenia over Nagorno-Karabakh², which had re-emerged in the late 1980s – that lay ahead of the country in early years of its independence, Azerbaijani leadership was able to overcome the difficulties and open up the country to the world with key strategic and economic features.

Gradually transforming from a rather poor country in the early 1990s, to a middle income country nowadays, Azerbaijan has become a regional leader and a reliable partner in international relations. Today it is a member of a number of international multilateral organizations such as the United Nations

¹ Azerbaijan established its first independent Republic (also known as the Azerbaijan Democratic Republic) on 28 May 1918. It existed for 23 months and was the first secular democracy in the Muslim world.

² Originally having sought unification with Armenia, the Armenian minority of Nagorno-Karabakh Autonomous Oblast (NKAO) started to demand the rights of self-determination and secession from Azerbaijan when Azerbaijan and Armenia became independent in 1991. As a result of this armed conflict one-fifth of Azerbaijan's internationally recognized territory, including Nagorno-Karabakh and seven other adjacent Azerbaijani districts – Lachin, Kelbajar, Fizuli, Jibrail, Zangelan, Aghdam and Gubadli – were seized by Armenian forces. The Azerbaijani population of this entire region was forcibly expelled from their homes during the undeclared war in 1992-1994 and these territories were transformed into a buffer zone considered by Armenians as a bargaining chip in the negotiation process. Some estimates put the number of deaths on both sides at more than 30,000. At the same time over one million were displaced during this conflict; some of them became refugees (from both sides) and others – internally displaced persons (mostly from the Azerbaijani side). Since 1994 when a cease-fire was reached, many attempts have been made by numerous external actors, including the OSCE Minsk Group, which took a leading in mediating this conflict beginning in March 1992. However, a political solution to this conflict had still remained elusive.

(UN), the Organisation for Security and Co-operation in Europe (OSCE), the Council of Europe, (CoE), the Organisation of the Islamic Conference (OIC), the Economic Cooperation Organisation (ECO), the Black Sea Economic Cooperation (BSEC), the Commonwealth of Independent States (CIS), GUAM Organization for Democracy and Economic Development, the World Bank (WB), the International Monetary Fund (IMF), the European Bank for Reconstruction and Development (EBRD), the Non-Aligned Movement (NAM).

Despite the complicated neighbourhood and the still-unresolved ethno-territorial conflict with Armenia, Azerbaijan continues to pursue an independent and multi-vector foreign policy which «is based on a balance between proactive strategy aimed at the realization of its national interest, strengthening its independence and sovereignty, restoring its territorial integrity, allowing it to find a *modus vivendi* with regional and non-regional actors which pursue their own, sometimes divergent policies»³. On the contrary Armenia, which is directly involved as a kin-state in the conflict over Nagorno-Karabakh, is Russia's only strategic ally in the region. Having antagonized Azerbaijan and Turkey, Armenia was forced to seek Russia's patronage, which, in turn, contributed to the polarization of the region and reduced to naught any meaningful regional cooperation between the three South Caucasus states despite the fact that, as small states located in the crossroads of three major regional powers, they share a common geostrategic environment.

Thus, unresolved armed conflicts (the Armenian-Azerbaijani conflict over Nagorno-Karabakh, the Abkhazian and South Ossetian conflicts in Georgia) and the different foreign policy orientations of the three South Caucasian states (Georgia's pro-Western, Armenia's pro-Russian and Azerbaijan's balanced and multi-vector stances) create certain conditions for volatility of this region often described as one of the least stable parts of "intermediate Europe"⁴, the belt of six post-Soviet states (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine) lying from the Baltic to Caspian Seas between the European Union and Russia. In 2009, at a summit held in Prague these countries also launched the EU's Eastern Partnership (EaP) initiative, a framework for enhancing cooperation opportunities and deepening integration processes towards the European Union.

This paper examines the EaP background and expectation of cooperation from Azerbaijan's end.

³ E. Mammadyarov, *The Foreign Policy of Azerbaijan: Affecting factor and strategic priorities*, in *Azerbaijan in global politics. Crafting foreign policy*. Baku, ADA, 2009, p. 20

⁴ W. Schneider Deters (P.W. Schulze), H. Timmermann, *Die Europäische Union, Russland und Eurasien: Die Rückkehr der Geopolitik*, Berlin 2008; P.W. Schulze, *Die EU, Russland und die GUS: Auseinandersetzungen über das nahe Ausland*, IPG 3/2005, p. 153.

5.1. EaP Background: Azerbaijan-EU Cooperation Framework

5.1.1 *The dawn of cooperation*

Formal relations between the EU and the Republic of Azerbaijan were established through Partnership and Cooperation Agreement (PCA) signed in April 1996 and in force as of July 1999. It provides a legal framework for EU-Azerbaijani bilateral relations in the areas of political dialogue, trade, investment, as well as economic, legislative, and cultural cooperation. Under the PCA a number of joint structures for cooperation at the political and technical levels have been established - Cooperation Council; Cooperation Committee with its four Sub-Committees covering trade, economic and related legal affairs; energy, transport and environment; justice, freedom, security, democracy and human rights; and employment and social affairs, public health, training, education and youth, culture, information society and audiovisual policy and science and technology, as well as Parliamentary Cooperation Committee, regular meetings of which have been convened at Ministerial, Parliamentary and senior official levels since 1999.

However the EU has been the biggest trade and economic partner as well as a major donor of development assistance since Azerbaijan's independence⁵. Between 1992 and 2004 the European Commission provided total assistance to Azerbaijan in the amount of some €400 million through its three community instruments – TACIS (Technical Assistance to the Commonwealth of Independent States), the Food Security Programme (FSP) and Humanitarian Assistance, Food Aid, Rehabilitation of war damaged areas. In its turn, Azerbaijan repaid on time and in full its €30 million exceptional macro-financial assistance from the European Commission⁶.

Thereafter under the 2002-2006 Country Strategy Paper TACIS assistance has focused on support for institutional, legal and administrative reforms as well as support for the private sector and assistance for economic development⁷. In addition to these two main priority areas some resources were also allocated to Small Project Programmes, including civil society support (IBPP), policy advice, statistics, customs, Managers Training. Nearly €3.7 mln has been allocated, targeting the destruction of Anti-Personnel Landmines (APL) and awareness-raising campaigns in Azerbaijan⁸.

⁵ Ambassador M. Mammadgulyev, *Azerbaijan's Foreign Economic Relations*, in *Azerbaijan in Global Politics Crafting Foreign Policy*, Baku, ADA, 2009, p. 210.

⁶ Commission staff working paper. Annex to: European Neighbourhood Policy. Country Report. Azerbaijan. Bruxelles, 2 March 2005, available at http://ec.europa.eu/world/enp/pdf/country/azerbaijan_country_report_2005_en.pdf.

⁷ European Neighbourhood and Partnership Instrument, *Azerbaijan*, Country Strategy Paper. 2007-2013, p. 16, available at http://ec.europa.eu/world/enp/pdf/country/enpi_csp_azerbaijan_en.pdf.

⁸ *Ibidem*, p. 16.

Several other programmes have also been realised in the country such as *Tempus* which provided sufficient support to the modernisation and the reform of the higher education system in Azerbaijan, TRACECA (The Transport Corridor Europe Caucasus Central Asia) and INOGATE (The Interstate Oil and Gas to Europe pipelines) supported regional cooperation, particularly on issues relating to closer inter-state cooperation on transport and energy⁹.

Undoubtedly, regional cooperation on energy is one of the rapidly developed priority areas in EU-Azerbaijan relationships. «Azerbaijan and its foreign partners have managed to create a new geography of pipeline infrastructure that provides alternative sources of energy supply to European countries. The Baku-Tbilisi-Ceyhan, Baku-Supsa oil pipelines along with the Baku-Tbilisi-Erzurum gas pipeline, as well as oil shipments by rail to Batumi guarantee the delivery of fossil fuel directly from the Caspian Sea to the Black and Mediterranean Seas»¹⁰.

Being both an energy producer and possible transit country in delivering Caspian and Central Asia energy resources to European markets, Azerbaijan has undertaken various initiatives in past years. «In 2004, acting in close cooperation with the European Union, Azerbaijan initiated the so-called Baku Process. This was aimed at bringing together representatives from the Black and Caspian Sea littoral states and the EU to discuss problems pertinent to broader regional energy cooperation. Another goal was to jointly explore the possibilities for facilitating energy transit and trade in the region»¹¹. Consequently, on 7 November 2006 in Brussels the President of the Republic of Azerbaijan Ilham Aliyev and President of the European Commission José Manuel Barroso signed a “Memorandum of Understanding on a Strategic Partnership between the European Union and the Republic of Azerbaijan in the field of Energy” that laid the solid foundation for the future strengthening regional cooperation on energy.

At its General Affairs Council of February 2001 the EU also confirmed its willingness «to play a more active political role in the South Caucasus region and its intention to look for further ways in which to support efforts aiming at prevention and resolution of conflicts in the region and to participate in post-conflict rehabilitation. The Foreign Ministers of Azerbaijan, as well as Armenia and Georgia, welcomed the EU’s commitment to play a more active role in the region in the Joint Communiqué issued on 30 October 2001 on the occasion of the Cooperation Councils with the three countries»¹². Later on, the post of the EU Special Representative (EUSR) for the South Caucasus was established, and Mr. Heikki Talvitie was appointed as the first EUSR for the South Caucasus in July 2003 «to assist the Council in developing a comprehensive policy towards the South Caucasus, to contribute to

⁹ *Ibidem*.

¹⁰ V. Sadigov. *Foreign Policy of Azerbaijan: European dimension*, in *Azerbaijan in Global Politics Crafting Foreign Policy*, Baku, ADA, 2009, p. 139.

¹¹ *Ibidem*, pp. 139-140.

¹² Commission staff working paper, Annex to: *European Neighbourhood Policy*, in *Country Report, Azerbaijan*, Bruxelles, 2 March 2005, SEC (2005) 286/3, available at http://ec.europa.eu/world/enp/pdf/country/azerbaijan_country_report_2005_en.pdf.

conflict prevention and assist the conflict settlement mechanisms in the region. He has visited Azerbaijan regularly and has paid particular attention to the conflict over Nagorno-Karabakh, which he visited in July 2004»¹³.

5.1.2 *European Neighbourhood Policy*

In May 2004 the EU's historic enlargement took place with the accession of ten new Member States. As a result of this process, a new framework entitled the European Neighbourhood Policy (ENP) was designed by the EU. The union aimed to prevent future dividing lines in Europe by offering the neighbouring partner countries in Eastern Europe and the Southern Mediterranean PCA's or Association Agreements (AA) to forge closer political, security, economic and cultural ties. A set of priorities was defined by the ENP and incorporated in jointly agreed Action Plans. It was envisaged that fulfilment of these Action Plans would bring these countries closer to the European Union¹⁴.

In addition, the recommendation of the European Commission to include the South Caucasus countries in the ENP was adopted during the EU Summit in Brussels on 17-18 June 2004 and an offer was made to Azerbaijan (together with Armenia and Georgia) to participate. After three rounds of negotiations held in 2005 and 2006, an Action Plan between the EU and the government of Azerbaijan was agreed upon.

Consequently, the State Commission on European Integration was set up in Azerbaijan by Presidential Decree in 2005. Nine inter-agency working groups under the commission were established to be responsible for implementation of all policy priorities as well as the Division for Cooperation with EU within the MFA was set up to oversee intra-governmental coordination as well as to serve as the Secretariat of the State Commission¹⁵.

The following ten priority areas for cooperation have been identified by the EU-Azerbaijan ENP Action Plan (ENP AP) jointly endorsed at the meeting of the EU-Azerbaijan Cooperation Council held in Brussels on 14 November 2006:

1. Contribute to a peaceful solution of the Nagorno-Karabakh conflict on the basis of the relevant UN Security Council resolutions and OSCE documents and decisions;
2. Strengthen democracy in the country, including a fair and transparent electoral process, in line with international requirements;

¹³ *Ibidem*.

¹⁴ Communication from the Commission, European Neighbourhood Policy, Strategy paper, Bruxelles, 12 May 2004, p. 3, available at http://ec.europa.eu/world/enp/pdf/strategy/strategy_paper_en.pdf.

¹⁵ Ambassador M. Mammadgulyev, *Azerbaijan's Foreign Economic Relations...*, cit., p. 211.

3. Strengthen the protection of human rights and fundamental freedoms and the rule of law, in compliance with international commitments of Azerbaijan (PCA, CoE, OSCE, UN);
4. Improve the business and investment climate, particularly by strengthening the fight against corruption;
5. Improve the functioning of customs;
6. Support balanced and sustained economic development, with a particular focus on diversification of economic activities, development of rural areas, poverty reduction and social/territorial cohesion; promote sustainable development including the protection of the environment;
7. Bring into line economic legislation and administrative practices;
8. Strengthen EU-Azerbaijan bilateral energy cooperation and regional cooperation on energy and transport in order to achieve the objectives of the November 2004 Baku Ministerial Conferences;
9. Enhance cooperation in the areas of justice, freedom and security, including border management;
10. Strengthen regional cooperation¹⁶.

In addition, the Country Strategy Paper (CSP) for Azerbaijan (2007-2013)¹⁷ was developed in close consultation with the Azerbaijani authorities, fully reflecting national priorities and with corresponding assistance provided under the European Neighbourhood and Partnership Instrument (ENPI). It outlines strategic objectives of EU/EC co-operation with Azerbaijan and presents analyses of the political, economic and social situations of the country and identifies the following six priority areas for further action: 1) political dialogue and reform; 2) economic and social reform, poverty reduction and sustainable development; 3) trade-related issues, market and regulatory reform; 4) cooperation in the fields of justice, freedom and security; 5) energy, transport, environment, information society and media; 6) people-to-people contacts.

On the basis of bilateral priorities, a National Indicative Programme (NIP) for 2007-2010 has been adopted, which covers democratic development and good governance; socio-economic reform (with emphasis on regulatory approximation with the EU *acquis*), the fight against poverty and administrative capacity building, as well as support for legislative and economic reforms in the transport, energy and environment sectors¹⁸. An indicative total sum of €92 mln has been allocated for implementation of NIP for 2007-2009.

¹⁶ E. Eyubov, *Azerbaijan - EU: Partnership in Progress*, «ADA biweekly». Vol. II, No. 13, July 1, 2009, available in <http://ada.edu.az/biweekly/issues/vol2no13/20090719070555496.html>.

¹⁷ European Neighbourhood and Partnership Instrument. Azerbaijan. Country Strategy Paper. 2007-2013, available at http://ec.europa.eu/world/enp/pdf/country/enpi_csp_azerbaijan_en.pdf.

¹⁸ *Ibidem*, p. 3.

According to the Mid-term Review¹⁹ undertaken in late 2008, Azerbaijan's overall commitment to implementing the ENP Action Plan remains uneven. On the one hand, Azerbaijan has made slow progress in a number of areas such political dialogue and reform, including protection of human rights and fundamental freedoms, the fight against corruption, trade-related areas and regulatory and market reform. On the other hand, good progress has been achieved in a number of areas such as economic development, poverty reduction (to 13.2 per cent in 2008), and the business environment (Azerbaijan was considered a "Top Reformer" in the 2009 World Bank "Doing Business" Report). Azerbaijan has also been able to cope with the global financial and economic crisis relatively well.

Sufficient work was also done by the representatives of civil society in Azerbaijan to promote Azerbaijan's speedy integration in the EU and to monitor implementation of the ENP through the Azerbaijan National Committee on European Integration (ANCEI). «ANCEI played an important role in raising awareness of the EU-Azerbaijan relations, promotion of knowledge and the understanding of the European Union and its programs, as well as acting as a "watchdog" through publication of its annual monitoring reports on implementation of the ENP Action Plan by the government of Azerbaijan»²⁰.

Thus, «by agreeing the AP, the EU and Azerbaijan commit themselves to developing deeper economic integration and strengthening bilateral political cooperation, including on: foreign and security policy, justice, energy, transport, poverty deduction, freedom and security, in particular in the field of border management, customs and migration and environment»²¹.

5.1.3 Black Sea Synergy (BSS) as a part of ENP

The Black Sea Synergy initiative was proposed by the European Commission in a communication to the European Parliament and the Council in 2007. However it was only formally launched in Kiev in February 2008 by the Foreign Ministers of the Black Sea partners and those of the EU²².

With the BSS, the EU seeks to increase coordinated action at the regional level among and between the countries surrounding the Black Sea region such as «Greece, Bulgaria, Romania and Moldova in the west, Ukraine and Russia in the north, Georgia, Armenia and Azerbaijan in the east and Turkey in the south.

¹⁹ European Neighbourhood and Partnership Instrument, *Azerbaijan National Indicative...*, cit.

²⁰ L. Aliyeva, *Azerbaijan and Eastern Partnership; partnership through empowerment*, in *EaP Community*, 25 January 2011, available at <http://www.easternpartnership.org/publication/2011-01-25/azerbaijan-and-eastern-partnership-partnership-through-empowerment>.

²¹ *Ibidem*.

²² Black Sea Synergy, Press release, Reference MEMO/10/78, 15 March, 2010, available at: http://europa.eu/rapid/press-release_MEMO-10-78_en.htm?locale=en#PR_metaPressRelease_bottom.

Through Armenia, Azerbaijan, Moldova and Greece are not littoral states, history, proximity and close ties make them natural regional actors»²³.

It was envisaged that «at the outset BSS would focus on those issues and cooperation sectors which reflect common priorities and where EU presence and support is already significant»²⁴, however later on a number of short- and medium-term tasks related to the following cooperation areas such democracy, respect for human rights and good governance, managing movement and improving security, the frozen conflicts, energy, transport, environment, maritime policy, fisheries, trade, etc. will be formulated.

In the meantime, the section devoted to frozen conflicts indicated, in particular, that «the Commission advocates a more active EU role through increased political involvement in ongoing efforts to address the conflicts (Transnistria, Abkhazia, South Ossetia and Nagorno-Karabakh) and has proposed that the EU also look at ways of enhancing its participation for example in monitoring»²⁵. Promotion of confidence-building measures in the regions affected, including cooperation programmes specifically designed to bring divided parties together, was particularly emphasized in this initiative.

Furthermore, it is envisaged to support a cross-border cooperation programme with the involvement of local authorities in the countries around the Black Sea, as well as the activities of civil society organisations under the BSS.

5.2. EaP Expectation of Cooperation: Azerbaijan's Perspective

The Eastern Partnership was originally proposed by Poland and Sweden at the EU foreign ministers' meeting in Brussels on 26 May 2008 with the aim of establishment of a new framework to bring the EU and its new eastern neighbours – Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine closer together.

Launched at the EU's Prague summit in May 2009 the EaP is based «on mutual commitments to the rule of law, good governance, respect for human rights, respect for and protection of minorities, and the principles of the market economy and sustainable development»²⁶. Its main goal is «to create the necessary conditions to accelerate political association and further economic integration between the European Union and interested partner countries»²⁷. Over the period of 2010-2013, approximately €1.9 bln has been allocated for bilateral and regional ENPI pro-

²³ Communication from the Commission to the Council and the European Parliament. Black Sea Synergy – A new regional cooperation initiative. Bruxelles, 11 April 2007, COM(2007)160 final, p. 2, http://ec.europa.eu/world/enp/pdf/com07_160_en.pdf.

²⁴ *Ibidem*, p. 3.

²⁵ *Ibidem*, p. 4.

²⁶ *Ibidem*, p. 3.

²⁷ Joint Declaration of the Prague Eastern Partnership Summit Prague, 8435/097, Bruxelles, 7 May 2009, (Presse 78), http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/er/107589.pdf.

grammes and €350 mln for multilateral dimension of EaP of which around €160 mln will be spent on several “Eastern Partnership flagship initiatives”²⁸.

The EaP is characterised by bilateral and multilateral tracks. The bilateral track is designed to create a closer relationship between the EU and each of the partner countries, including the upgrading of contractual relations towards association agreements (AAs), establishing deep and comprehensive free trade areas (DCFTA), introducing progressive visa liberalisation in a security environment, deepening cooperation in energy security, supporting economic and social policies designed to reduce disparities within each partner country and across borders. At the same time a new Comprehensive Institution-Building (CIB) programme will be set up for improvement of the capacity of each partner to undertake the required reforms.

On the other hand, the multilateral track provides a framework to address common challenges and concentrate on four policy platforms, namely “Democracy, good governance and stability; Economic integration and convergence with EU policies; Energy security; and Contact between people”. This track also supports the following EaP flagship initiatives: a) an integrated border management flagship initiative; b) support for Small and Medium Enterprises (SMEs) flagship initiative; c) regional energy markets, energy efficiency and renewable energy sources flagship initiative; d) prevention, preparedness and response to natural and man-made disasters flagship initiative; e) diversification of energy supply and f) an environmental governance flagship initiative.

However it is essential to differentiate EaP from BSS although both of these initiatives have regional and multilateral dimensions. If the overall objective of the EaP is to bring the six Eastern European and Caucasus partner countries closer to Brussels, the centre of gravity of BSS is in the Black Sea region. Open to all Black Sea countries, the BSS is based on initiatives taken in the region, and aims to support objectives that these countries have already subscribed to²⁹.

The role of civil society, development of Civil Society Organisations (CSOs) as well as establishment of the EaP Civil Society Forum to promote contacts among CSOs and facilitate their dialogue with public authorities are particularly underlined in the EaP. So far three EaP Civil Society Forums (16-17 November, 2009 - Brussels; 18-19 November, 2010 - Berlin; 28-30 November, 2011 - Poznan) have been held. The fourth one will be convened in Sweden on 29-30 November 2012.

²⁸ European Union Factsheet, Eastern Partnership summit, Warsaw, 29-30 September 2011, The EU's Eastern partnership, http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/124798.pdf.

²⁹ Black Sea Synergy, Press release, Reference, MEMO/10/78..., cit.

At the same time it was proposed that «the Commission would welcome any initiative by the European Parliament to make the EuroNest parliamentary cooperation that it has developed an integral part of the EaP. In addition, a parliamentary troika comprising the European Parliament, the OSCE and the Council of Europe Parliamentary Assemblies could underpin the multilateral aspects of the EaP»³⁰.

However, in only two years, on 3 May 3 2011, the Euronest Parliamentary Assembly has been inaugurated in Brussels. Fifty members of the European Parliament and 50 representatives of parliaments of the partner states (10 from each country, except for Belarus) participating in that meeting adopted the constituent act and rules of procedures as well as establishing four standing committees namely a) the Committee on Political Affairs, Human Rights and Democracy; b) the Committee on Economic Integration, Legal Approximation and Convergence with EU policies; c) the Committee on Energy Security; d) the Committee on Social Affairs, Education, Culture and Civil Society.

Each of these Committees will be composed of 30 members: 15 from the European Parliament and 15 from the parliaments of the partner states³¹. The first session of the Euronest Parliamentary Assembly held in Strasbourg on 15 September 2011 brought together members of the European Parliament with elected representatives from the six partner countries.

The Committee of the Regions and the European Economic and Social Committee have also been invited by the Commission to participate in the work of a thematic platform on Democracy, good governance and stability and on Contacts between people. Moreover, the Committee of the Regions has been invited to establish a Local and Regional Assembly for Eastern Europe and the South Caucasus which is in process.

After the second EaP Summit held in Warsaw on 29-30 September 2011, EaP Roadmap, a new tool was introduced to monitor the EaP work in progress. «It is a single set of documents, intended for EU Member States and Eastern European countries alike, outlining the mutually agreed objectives, the necessary policy steps to be taken by partner countries, the support extended by the EU to achieve those steps and the expected outcome. The roadmap thus sets out measures to achieve concrete progress by autumn 2013»³². It also based on the “more for more” principle, which means the more progress a partner country makes, the more support it will receive from the EU.

³⁰ Communication from the Commission to the European Parliament and the Council, Eastern Partnership, SEC (2008)2974, Committee of European Communities, Bruxelles, 3 December 2008, p. 12, http://ec.europa.eu/europeaid/where/neighbourhood/eastern_partnership/documents/eastern_partnership_communication_from_the_commission_to_the_european_parliament_and_the_council_en.pdf.

³¹ Euronest Parliamentary Assembly finally inaugurated. In EaP Community, 3 May, 2011, <http://www.easternpartnership.org/ru/announcement/euronest-parliamentary-assembly-finally-inaugurated>

³² Joint Communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the regions. Eastern Partnership: a Roadmap to the autumn 2013 Summit, SWD(2012)108 final, SWD(2012)109 final, p. 2, http://ec.europa.eu/world/enp/docs/2012_enp_pack/e_pship_roadmap_en.pdf.

The Roadmap is accompanied by additional funding. A new programme called EaPIC (Eastern Partnership Integration and Cooperation) is being set, with an indicative allocation of €130 mln for 2012-2013, «which will focus on promoting democratic transformation and institution building and sustainable and inclusive growth and increased confidence-building measures»³³.

At the same time the EaP is one of the initiatives introduced by regional and non-regional actors after the Russian invasion of Georgia. The five-day long (8-12 August 2008) war which brought new implications not only for Georgia, but also for the wider South Caucasus, proved that Russia still considers the South Caucasus as a zone of its historical, strategic interest and is ready to fight against the establishment of any unacceptable scenarios there.

Therefore, although the European Council of 19-20 June 2008 invited the Commission to prepare a proposal for an EaP, «the Extraordinary European Council of 1st September 2008 asked for this work to be accelerated, responding to the need for a clearer signal of EU commitment following the conflict in Georgia and its broader repercussions»³⁴.

After the launch of this initiative on 15 September 2009 the European Union also prepared a new South Caucasus strategy paper to work towards stronger ties with the South Caucasus countries – Armenia, Azerbaijan and Georgia. The EU Ministers asked the European Commission to prepare separate mandates for Association Agreements with the three countries. Swedish Foreign Minister Carl Bildt commented that «these countries are sovereign nations and they have the right to choose their own destiny. They have expressed their view for a closer relationship with the European Union»³⁵.

However, Russia's attitude to the Eastern Partnership program has been seen, so far, in the context of the notorious confrontation between Russia and the West. Moscow believes that this program might consolidate the anti-Russian states and force them to choose between the EU and Russia³⁶.

Moreover, the concept of a Eurasian Union, «a powerful supranational union capable of becoming one of the poles of the modern world» was brought up in October 2011 by the Prime Minister of Russia, Vladimir Putin³⁷. According to Fyodor Lukyanov, «the proposed Eurasian Union is not what it appears to be at

³³ *Ibidem*, p. 4.

³⁴ Communication from the Commission to the European Parliament and the Council. Eastern Partnership, SEC(2008)2974, Committee of European Communities, Bruxelles, 3 December 2008, p. 3 http://ec.europa.eu/europeaid/where/neighbourhood/eastern_partnership/documents/eastern_partnership_communication_from_the_commission_to_the_european_parliament_and_the_council_en.pdf.

³⁵ A. Lobjakas, *EU Ministers Review South Caucasus Strategy, Mull Afghan Future*, Radio Free Europe/ Radio Liberty, 15 September 2009.

³⁶ See: Stenogramma vystuplenia i otvetov na voprosy SMI Ministra inostrannykh del Rossii S. Lavrova na sovmeestnoy press-konferentsii po itogam peregovorov s Ministrom inostrannykh del Polshi R. Sikorskim, Moscow, 6 May 2009, http://www.mid.ru/brp_4.nsf/2fee282eb6df40e64325699005e6e8c/bb730a61df963d64c32575ae0056bec2?OpenDocument.

³⁷ V. Putin. *Noviy integratsionniy proyekt dlya Evrazii – budushee, kotoroe rojdaetsya*, Izvestiya, 3 October 2011, <http://izvestia.ru/news/502761>.

first glance. It is not a political embodiment of the “great steppe”; nor is it a reincarnation of the USSR and it is only marginally an alternative to the European Union in setting new perspectives for the CIS countries»³⁸.

Thus, on the one hand, the launch of the EaP increased tensions between Brussels and Moscow and brought certain politicisation of the EU’s eastern neighbourhood between the EU and Russia. On the other hand, introduction of a new concept of a Eurasian Union by Russia, in its turn also opened up a new alternative for the EU’s eastern neighbours in the future.

Nevertheless Azerbaijan has been closely engaged in the EaP from the outset and cooperates in both its bilateral and multilateral tracks. Today the EU-Azerbaijan relationships are developing positively.

The President of the Republic of Azerbaijan Ilham Aliyev attended both the EaP summits held respectively in Prague on 7 May 2009 and Warsaw on 29-30 September 2011.

The European Commission President José Manuel Barroso also paid an official visit to Baku on 13 January 2011. Both Presidents signed the “Joint Declaration on the Southern Gas Corridor” and reaffirmed that «the importance of the EU - Azerbaijan energy relationships enshrined notably in the “Memorandum of Understanding on Strategic Partnership between the European Union and the Republic of Azerbaijan in the field of energy” signed by President Ilham Aliyev and President José Manuel Durão Barroso in Brussels in November 2006, the relevant provisions of the “Baku Declaration” signed in November 2008, relevant Energy Declaration of the Prague summit in May 2009»³⁹.

Within the EaP, the negotiations for an Association Agreement were also launched in July 2010 in Baku. The negotiation on a DCFTA will start, in the same framework, once the necessary conditions have been met which include Azerbaijan’s joining of WTO. However in this respect, no progress has been made in negotiations on Azerbaijan’s accession to the World Trade Organisation (WTO)⁴⁰.

At the same time negotiations over the Visa facilitation and readmission agreements between the EU and Azerbaijan have been launched on March 2012 proceeding with three rounds of talks and expected to be concluded by early 2013.

Thus, Azerbaijan made some progress in implementing the ENP AP, particularly in the areas of macro-economic stability and efforts to address poverty and attain socio-economic equilibrium. It was also able to move ahead in the fight against organised crime, terrorism and illicit trafficking, energy

³⁸ F. Lukyanov, *What does Eurasian union mean?*, Gazeta.ru, 17 September 2012, <http://www.telegraph.co.uk/sponsored/russianow/opinion/9548428/eurasian-union-explanation.html>.

³⁹ Joint Declaration on the Southern Gas Corridor http://ec.europa.eu/energy/infrastructure/strategy/doc/2011_01_13_joint_declaration_southern_corridor.pdf.

⁴⁰ Joint Staff Working Paper, *Implementation of the European Neighbourhood Policy in 2010*, Country report, *Azerbaijan*, COM(2011)303, p. 2, http://ec.europa.eu/world/enp/pdf/progress2011/sec_11_640_en.pdf.

cooperation and gender equality, with the adoption of a law on domestic violence. On the other hand, further efforts need to be made in the fields of democracy, including electoral processes, the protection of human rights and fundamental freedoms and the independence of the judiciary⁴¹.

At the same time the Country Strategy Paper (CSP) adopted in 2007 remains a valid framework for cooperation with Azerbaijan. The EU has also developed a new three-year aid plan for Azerbaijan, called the NIP 2011-2013, which was adopted in May 2010 with a budget of €122.5 mln.

NIP covers the following three priority areas:

- a) democratic structures and good governance including strengthening democratic institutions, the rule of law, human rights, judicial reform, the fight against corruption, public administration reform, civil society development;
- b) socio-economic reform and sustainable development, trade and investment, regulatory approximation and reform covering the promotion of trade and investment, support WTO accession, diversification of the economy, regional and rural reform, environment, health, education, research;
- c) partnership and Co-operation Agreement and ENP AP implementation including in the areas of energy security, mobility and security covering strengthening energy security, improving border management, improving migration and asylum legal framework, fighting trafficking and organised crime at borders⁴².

The NIP 2011-2013 includes a specific appropriation to finance new actions under the EaP, notably a Comprehensive Institution Building programme (CIB) (with a minimum allocation of €19.2 mln for Azerbaijan) and the Regional Development Pilot Programme (with a minimum of €9.3 mln). The CIB Framework Document was signed in January 2011 and identified the following key institutions for support: Ministry of Foreign Affairs, Ministry of Economic Development, Ministry of Justice, Civil Service Commission⁴³.

Azerbaijan considers the bilateral track of EaP the main platform for cooperation with a particular emphasis on the following issues, taking into account recent development and reforms being carried out in Azerbaijan:

- a) Comprehensive Institution Building programme to be finalized by institutional reform plans and launched for implementation as soon as possible;

⁴¹ *Ibidem*, pp. 2-3.

⁴² The European Union and Azerbaijan, EU delegation to Azerbaijan, 2010, http://eeas.europa.eu/delegations/azerbaijan/documents/cover_eng_final.jpg.

⁴³ *Ibidem*, p. 15.

- b) development of knowledge and skills at EU standards and their possible implementation in Azerbaijan;
- c) energy security – further development of energy dialogue between the EU and Azerbaijan and expansion of the existing strategic partnership in this area to other relevant areas;
- d) sectoral cooperation – enhancing cooperation between the EU and Azerbaijan on development of agriculture, health, tourism, ICT, education and research sectors through financial as well as technical assistance programs of the EU; in particular with involvement in Community programs and agencies, based on the needs and interest expressed by Azerbaijan very soon;
- e) implementation of the Justice Reform Support Program to Azerbaijan 2012-2014;
- f) support for implementation of the National Program for Action to increase the effectiveness of the Protection of Human Rights and Freedoms in the Republic of Azerbaijan;
- g) mobility – negotiation and conclusion of visa facilitation and readmission agreements as soon as possible with further visa liberalization as the next step and consultations and conclusion of a joint declaration on a Mobility Partnership;
- h) EU Advisors – setting up and appointing of EU Advisors to the key ministries of Azerbaijan with the aim of effective implementation of the existing initiatives and programs and full use of tools offered under ENP and EaP for further integration with the EU;
- i) Pilot Regional Development Programs with a further conclusion of the Pilot Programs;
- j) fight against corruption (case-based training on ethical conduct for civil servants; capacity-building of state agencies in developing sectoral anti-corruption strategies);
- k) E-government, development of e-services, development of e-documentation;
- l) cyber-security and the fight against cybercrime.

The multilateral track is complimentary to the bilateral track, serving as a platform for an exchange of views and know-how, specifically benefiting from EU expertise, on a wide range of issues related to development of civil society such as good governance, administrative and institutional capacity-building and innovative approaches to socio-economic governance.

However, the ongoing military conflict between Armenia and Azerbaijan and occupation of the territories of Azerbaijan by the Armenian armed forces makes full cooperation between them within the multilateral format absolutely impossible until the resolution of this conflict. Therefore, Azerbaijan

has been participating in multilateral endeavours of the EaP on a case-by-case basis.

At the same time within the EaP multilateral track the Azerbaijan National Platform (ANP) was established in April 2010 bringing together 40 civil society organisations. Azerbaijan Civil Society members of the EaP Civil Society Forum (CSF) regularly organise roundtables, conferences and various events devoted to various topics such as Azerbaijan's accession to the WTO, alternative and renewable energy sources and energy efficiency and the development of small business in Azerbaijan.

At the same time the second session of the Euronest Parliamentary Assembly was held in Baku, on 2 April 2012. It was attended by the EU delegation consisting of 60 people, national delegations of Ukraine, Georgia, Moldova and Armenia, consisting of ten people each. President Ilham Aliyev received a delegation of the Euronest Parliamentary Assembly Bureau led by the Assembly's Co-President Kristian Vigenin and exchanged opinions on expansion of ties between Azerbaijan, the European Parliament and the EU.

Thus, the cooperation between the EU and Azerbaijan has been widening in many sectoral areas. This is a consistent and ongoing process. Therefore, scope of the "more for more" principle should not be limited to progress on reforms in the fields of democracy, rule of law and human rights. The progress of Azerbaijan in other fields, such as socio-economic development, should also be taken into consideration when applying the "more for more" principle. There should be some consistency in EU's general policy towards Azerbaijan due to the fact that EU-Azerbaijan close relationships cover not only political cooperation, but also include in economic integration.

Conclusions

Firstly, the EaP initiative was launched with the clear goal of integrating economically and politically with six post-soviet states without offering them any EU membership perspective. Some positive work has been done in this direction so far, and one can hope that the implementation of ENP APs, well as EaP will further strengthen the political independence, economic development and consolidation of statehood in these states. But their successes might also depend on how successfully future rapprochement between the EU and Russia will be developed.

Secondly, the eastern partners were dependent on others for quite a long period of time and only twenty years ago regained their independence. Although they were united under Soviet rule, they are quite different from each other. They have different foreign policy orientations, different political elites and civil society institutions, different levels of economic development based on the distribution of natural resources and so on. Some of them are very keen

to become EU members; others are not in a hurry to start this process. Therefore, the EU should be more flexible in this context and take specific features of different partners into consideration.

Third, the EU's current involvement in the resolution of the Armenian-Azerbaijani conflict over Nagorno-Karabakh is very limited. It pursues a "wait and see" approach and some ambiguity is also observed in its policy documents at times. As reasonably indicated by N. Mikhelidze «the EU's contradictory policy was highlighted in the drafting of the ENP Action Plans (AP) for Azerbaijan and Armenia, in which the EU underlined the importance of Azerbaijan's territorial integrity in the Azeri AP, while including a reference to self-determination and Nagorno-Karabakh in Armenia's AP»⁴⁴.

At the same time the ENPs for Azerbaijan and Armenia⁴⁵ both indicated very clearly a continuing strong EU commitment to support the settlement of the Nagorno-Karabakh conflict by drawing on the instruments at the EU's disposal, including EUSR, and in close consultation with OSCE. However, no positive results have been achieved yet in this process. Thus, overall frustration with the OSCE Minsk group process as well as EU's rather passive attitude to this conflict currently presents a real danger of renewed hostilities as the only alternative to the status quo. Therefore it is a time for the EU to play a more active role in the Nagorno-Karabakh conflict resolution and the mediation processes. The EaP could create new instruments for further cooperation in this area. There are enough human resources, knowledge, and expertise to do so, but the political will of the EU is urgently needed. The EU can apply conditionality on conflict settlement in its bilateral relations with Armenia to contribute to the settlement process through its soft power.

⁴⁴ N. Mikhelidze, *Eastern Partnership and conflicts in the South Caucasus: old wine in new skins?*, in Documenti IAI No. 23, 2009, available also <http://www.iai.it/pdf/DocIAI/IAI0923.pdf>.

⁴⁵ EU-Azerbaijan Action Plan, http://ec.europa.eu/world/enp/pdf/action_plans/azerbaijan_enp_ap_final_en.pdf; EU-Armenia Action Plan, available at http://ec.europa.eu/world/enp/pdf/action_plans/armenia_enp_ap_final_en.pdf.

6. The Southern Corridor: Azerbaijani Perspective from Well Head to End Users

Gulmira Rzayeva

Introduction

Energy security can be defined as «having a reliable and adequate supply of energy at reasonable prices» or as «securing adequate energy supplies at reasonable and stable prices in order to sustain economic performance and growth» is the top priority issue in the political and economic agenda of the EU. Europe has realized how painful it is to be almost completely reliant on only one monopolist supplier because it has exposed economic and political manipulation especially in the South East European countries and the Balkans. Those countries are vulnerable to supply interruptions since they are almost completely reliant on a single supplier. This situation, fraught with national security dilemmas is of growing concern of EU policymakers.

Ninety-one percent of EU gas imports today come from only three countries: Russia, Norway and Algeria, plus LNG from Qatar. Among them Russia has the dominant position as a gas supplier to Europe with its 132 billion cubic meters for the year (bcm/y) of 2010, which is 30 per cent of total EU import.

According to the IHS CERA, Eurogas and IEA, gas consumption will only increase and gas will be the dominant energy source in the EU in the coming decades. This transition could first be driven by the EU's policy of reducing its carbon emissions and its shift towards a greener economy. Secondly, potential reduction of nuclear power in the EU following the Fukushima disaster is another driving force behind the increased demand for gas demand. For example, as a result of the nuclear plant phaseout in Germany, the demand for gas will increase by additional 20 bcm/y until 2020.

Meanwhile, the International Energy Agency predicts that EU gas output will decrease from around 200 bcm/y in 2012 to about 90 bcm/y in 2030, which will accompany a growth in demand for gas from approximately 550 bcm/y to anywhere from 620 to 680 per annum in 2030.

Therefore, the EU's policy of making gas available (availability on demand, when a country wants energy, it should be available), accessible (the nation should be able to access energy sources globally to ensure uninterrupted growth) and affordable (affordability of the energy being procured to ensure that the growth engine is not impacted by the price impact) is becoming a main element of its foreign and economic policy. Having this target, the EU has initiated a number of initiatives, instruments and mechanisms internally, as well as gas transportation projects externally, which aim to ensure a stable and secure energy supply and transit to solve the dilemma of gas dependence on the Russian monopolist.

Such instruments are precisely described by the Eastern Partnership Platform on Energy Security that apart from the internal regulatory and legal framework that also covers enhanced cooperation with EaP Member States in the energy field. Such frameworks include the Council of European Energy Regulators (CEER) «facilitation of the creation of a single, competitive, efficient and sustainable EU internal energy market that works in the public interest» as a key objective of the Council. Market design and unbundling, customer perspectives, legal for the regulation of network tariffs, which aim to efficiently regulate the network monopoly for a functioning liberalized energy market etc. are among the issues discussed in the Platform with the Member States – Azerbaijan Georgia, Armenia, Moldova, Ukraine.

The most important external project the EU has initiated to diversify its supply sources from third countries is Europe's Southern Gas Corridor Strategy, which was founded on the necessity to maximize the imports of non-Russian gas via non-Russian controlled territory, so as to establish a fourth supply route in addition to those in Russia, Norway and Northern Africa. The European Commission has recognized, not only gas from the Caspian (Azerbaijan) and Central Asia (Uzbekistan, Kazakhstan and primarily Turkmenistan) but also Middle Eastern gas from Iraq and even Egypt as potential sources of supply for the Southern Gas Corridor. Any serious discussion on the feasibility of the two remaining Southern Gas Corridor Strategy pipeline projects, namely Nabucco West and Trans-Adriatic Pipeline (TAP) that vie for the transportation of Azerbaijani gas to Europe via Turkey, requires an examination of the geopolitical environment which will, along with competing corporate strategies, determine the optimal alternative for Socar and its Shah Deniz (SD) partners.

This article will first analyze the geopolitical context of Europe's Southern Gas Corridor Strategy and then present the competing interests of regional

state players as well as SD members in the South Caucasus component of the transportation chain up to the entrance of Azerbaijani gas to the Turkish national grid on the Turkish-Georgian border via the SCP (South Caucasus Pipeline). The paper will then make a specific reference to the emergence of the TANAP (Trans-Anatolian Project) pipeline that effectively replaces Nabucco's route through Turkey.

The paper will also analyze the different corporate perspectives focusing on Socar's strategic goals as well as the pros and cons of the two remaining pipeline projects. The author believes that both TAP and Nabucco West offer significant value to Azerbaijan and Socar.

6.1. Complex Forces

The Southern Gas Corridor project is becoming a critical issue as we move toward the final decision-making process on the evacuation route of the Shah Deniz phase II project (SDII). This project is arguably the most dynamic hydrocarbon investment element, not only in the Caspian region but also in the wider European area. Two major issues contribute to its dynamism: rival and conflicting economic and commercial interests on the part of national majors, in the context of political motivations driving gas producers and sellers as well as the energy policies of consumer countries.

Both of these aspects must be considered when seeking to determine whether the notion of the Southern Corridor will make a real contribution to energy security, national security, and the well-being of both consumer states in the EU and producer country/ies, or whether it will fray under the influence of intertwined commercial and political interests of the parties, thus making the whole picture extremely complicated.

Several features render this mega-project distinct from other similar energy projects underway in the European region, including those being pursued by Russia (such as the various streams – Blue, North and South and others). First of all, there are many players that are directly involved: both states and national oil majors, each with their own interests and conditions that make the project decision-making process extremely difficult and complicated. It is already a case of “too many cooks”. A second issue is the strong role played by external actors in setting the regional agenda. A combination of the major powers' regional interests and inevitable external cover sometimes influences decisions made by internal players. These external forces are the EU, the US, Russia and Iran.

The wider picture in terms of the delivery of Azerbaijani gas to European markets and Turkey is also changing. All the interested segments of the strategic project – the Shah Deniz consortium, midstream consortia such as TANAP, TAP, Nabucco West, the EU market with its regulations and terms,

Turkey as a transit country – are implicitly or explicitly pursuing their interests, which are often in conflict.

6.2. The Starting Point Along the Value Chain: Shah Deniz and Its Partners' Interests

A Production sharing agreement (PSA) between seven oil companies and the Azerbaijani authorities for the Shah Deniz area of the southern Caspian was signed in June 1996 and the field went on-stream in December 2006. Statoil and Bp are the biggest shareholders, each with a share of 25.5 per cent. Bp has been appointed as operator on behalf of the other PSA Partners and Statoil is Chairman of the Shah Deniz Gas Commercial Committee¹.

When the agreement was signed, Socar did not have the technical, financial or staffing capacity to undertake leadership of the projects and to own the strategic majority of the share. Instead, prominent, experienced and financially-sound companies were invited to invest, operate and provide technical facilities. This partnership exists between Shah Deniz and the state of Azerbaijan, where it is believed that Shah Deniz Full Field Development has the potential to bring huge benefits to the country through direct investment, job creation, gas and condensate revenues, the application of new technologies and the construction of valuable new infrastructure.

The goal of these partnerships was available, affordable, secure and sustainable Azerbaijani energy to Turkey and Europe, and establishing a new Southern Corridor for gas supply from the Caspian to Europe in the process. The Azerbaijani government secured the “smart and wise Partnerships” that were required to successfully establish this project as a new cornerstone of Caspian gas supply to Europe.

On the other hand, each company and country involved in the SD Project had political and strategic interests as well as commercial interests towards, not just Azerbaijan, but the region as a whole. In the 1990s, immediately after gaining independence from the USSR, there were a few years when all the post Soviet countries were extremely volatile and vulnerable because of various ethnic conflicts and the residual, but strong, Russian influence. The region-building process, as such, had not even begun, and therefore the South Caucasus was not a “natural” region like the Nordic, Black Sea, Baltic Sea regions; only today can we identify some elements of region-building processes. There are two main reasons that the South Caucasus was not a real region. First of all, a region-building process is usually run through a set of common rules and institutions founded with the consensus of local actors. In the early

¹ *BP in Azerbaijan*, Sustainability Report, http://www.bp.com/liveassets/bp_internet/globalbp/STAGING/global_assets/downloads/A/Azerbaijan_Sustainability_Report_2010.pdf.

1990s, there was no sign of this. Secondly, if we take the local perspective, the Caspian as well as the South Caucasus region had a very low level of regional integration. Formerly, all roads had led to Moscow. Even today, the region has not yet reached the status of a regional entity where integration is based, not only on a compatibility of interests, but also on common institutions.

On the contrary, the rules, norms, and expectations that were in place were promoted by a regional leader: Russia. Russia has always claimed to prefer “regional solutions to regional problems” (including conflicts, although it is unclear how it is possible to find a local solution to such conflicts and keep external players out). While this is clearly desirable for Russia – it helps it maintain its hegemony in the vast area it considers “its near abroad” – it is not at all clear if this is what the countries involved actually want. Caspian, as well as the South Caucasus states as a result, had, as their primary strategy, a goal of counterbalancing Russia, which itself is seeking to counterbalance the US (and the West in general).

The inward-oriented policy of Russia at that time was unacceptable to other regional players, especially Azerbaijan. This was a country that had an ongoing territorial conflict with neighboring Armenia; it was also a country that was sufficiently far-sighted to invite all the international majors to the region to open up the first vast oil and then gas resources of the Caspian. Without the external intervention of western countries and international institutions, Azerbaijan simply will not be able to resolve the conflict. The Shah Deniz project will enable the country to further strengthen its position and role as a major hydrocarbon exporter in the region, gaining strategic leverage towards other players.

In a political sense, it would give the country closer security cooperation with the US and NATO, and with the European countries whose majors were investing millions in the Azerbaijani gas field and the EU as a block, which could be instrumental in containing Russian (and Iranian) regional influence. There was also a belief in Baku that Russian pressure was aimed at obtaining blocking stakes in Azerbaijan’s energy developments for Russian companies.

Furthermore, the Shah Deniz project would strengthen the strategic relationship with Turkey, which Azerbaijan has traditionally sought to maintain, by motivating Ankara’s participation in Caspian energy projects. Turkey’s greater involvement in the projects would make Ankara more assertive on the regional political scene, which would likely be to Azerbaijan’s advantage.

Another important political factor is Azerbaijan’s clear strategy of using its growing energy potential towards the resolution of the Nagorno-Karabakh conflict. Baku tries to use the energy projects as platforms through which to win political support, not only from the states where Azerbaijani gas will flow, but also from the EU as an international organization. Yet, the country is still uncertain about the selection of the most commercially viable evacuation route

to the European market, leaving the door open for further political bargaining.

External actors. The main political interest of the EU and US in the Shah Deniz project is to counterbalance Russian influence in the Caspian region, as well as to reduce Russia's near monopoly in European pipeline gas imports.

On the other hand, the EU interests relate to its view of the region as a part of the wider Black Sea region, which includes a Euro-Asian energy corridor linking Euro-Atlantic countries with Central Asian energy supplies. The EU's main interest in the region is starting from the Shah Deniz further to secure the transportation of Turkmen gas via Azerbaijan and Turkey and onward to the European markets. Yet the EU is perfectly aware that the Trans-Caspian prospects are dependent upon the internal actors, namely Azerbaijan and Turkmenistan.

With regard to US regional interests, it seems likely that balancing Russia and preventing any alliance with Iran is the key factor. Turkey is a traditional US ally on such issues. Still, the US will be the most decisive actor for Iran, and it is Washington that will decide how long Iran will be subject to international sanctions. Given that the Iranian state oil company holds 10 per cent stake at the SDII project, Washington will remain vigilant in respect to the project, Azerbaijan, and the region. This can be also seen in the increasing attention NATO is paying to energy security in the region.

Turkey has its own ambitions of becoming an energy hub not only regionally, but also internationally, as an influential bridge between the hydrocarbon-rich East, and the West with its lucrative markets. Turkey is attempting to win the stakes in the key midstream projects and in infrastructure passing through its territory, in order to exert its influence on all the actors within the project. There are a number of political explanations for this. Firstly, Turkey would have leverage against the EU, which is crucial in the context of the prospect of EU accession. Secondly, Turkey wants to gain leverage over gas price negotiations with Azerbaijan, in order to get 6 bcm of Azerbaijani gas for a favorable price via the TANAP.

Azerbaijan is also interested in benefiting from the SD project in order to keep Georgia as a close ally and an important regional partner. Azerbaijan has already helped Georgia minimize its oil and gas dependence on Russia. Socar controls the port facilities in the Kulevi harbor, a significant portion of Georgia's gasoline retail network as well as the Baku-Supsa oil pipeline. There is no doubt that Baku is among the country's top foreign investors and its most important commercial partner. The publicly discussed prospect of Socar's purchase of the Georgian portion of the gas pipeline connecting Russia and Armenia is another recent example of the Baku-Tbilisi nexus, which may be interpreted as an explicitly political move against Yerevan.

Of the companies involved, most have a mainly commercial interest in the project – with the possible exception of Russian Lukoil and Iranian NICO. Both are acting as national representatives to monitor and protect national interests.

Bp, Statoil, Total are mainly interested in expansion into Eurasia with strong support from their governments, and in strengthening their positions as energy majors. They realize that nowadays, successful economic relations are the most important way of building and sustaining influence.

Botas/Траро – a minor partner, however, has a “finger” in all the decision-making processes from a strategic point of view to push the Turkish agenda of becoming an energy hub. As outlined above, Turkey’s main focus is in making itself into an influential East-West bridge for energy exports. Turkey should privatize Botas, and demonstrate that it agrees with the Energy Charter (and EU regulations, as, if the accession process ever gets underway, it would be valuable to have EU legislation in place already).

6.3. The Midstream Value Chain: South Caucasus Pipeline & TANAP

With its oil strategy successfully realized, Azerbaijan has begun to pursue its strategic goals related to gas export policy; it is currently the only country in the region exporting gas to international markets (that is Turkey, Russia, Georgia), and so the country has been designated as an “enabler of- and contributor to” the Southern Gas Corridor by the EU.

In line with this strategy, Azerbaijan is aiming to become an important and strategic gas exporting country for the EU in the long-term. It is now putting significant effort into establishing a presence at every part of the value chain, from the SD field to the European end users.

The PSA on the SDII of development is valid till 2036, and the lifetime of the project is 14 years from now². Until then, Socar will not be able to change the terms of the contract or change the sharing of assets. However, today, with its rapidly growing financial capabilities and strategic position in the project, it is able to acquire more assets along the value chain. This allows it to control the infrastructure through which its gas will be transported to market, where the company can also have stakes.

At this stage, Azerbaijan would never sell its gas at the Turkish-European border as a net crude exporter. Gas is a strategic commodity, and by using this asset wisely, Socar and the country can gain important geostrategic and financial leverage. The issue of controlling the prospective network is becoming increasingly urgent. Thus one can see the implicit rivalry between SD

² *BP in Azerbaijan*, Sustainability Report http://www.bp.com/liveassets/bp_internet/globalbp/STAGING/global_assets/downloads/A/Azerbaijan_Sustainability_Report_2010.pdf.

partners, especially Socar and Bp, over control of the strategic infrastructure. This can be deemed the main reason that Bp proposed the South East European Pipeline (SEEP), which would have enabled the British major to acquire more assets in the midstream project under advantageous terms. Since SEEP has been dropped from consideration by the SD consortium³, Bp has now announced that the company is interested in joining the TAP consortium⁴ and having its own stake in the project that won the semi-final of the pipeline contest, and might transport the 10 bcm of Azerbaijani gas to the Italian market in the event that the proposal wins the final.

Returning to the starting point of the value chain of the South Caucasus Pipeline (SCP), Socar and Azerbaijan would not be satisfied with only a 10 per cent stake in the pipeline. The company is now seeking further assets in the midstream and downstream projects in order to maximize revenues and returns, and to secure greater long-term political and strategic influence in the region.

Not satisfied with the 10 per cent stake in the South Caucasus Pipeline (SCP), Socar has begun an initiative to expand the SCP. The proposed system would be scalable up to 30 bcm of Azerbaijani gas, and, in the future, include Central Asian gas as well.

There are two reasons that such an initiative was suggested. First, the scalable infrastructure is needed to transport SD gas after 2017, and the gas from new discoveries will ensure Azerbaijani gas production reaches 50 bcm/pa after 2025⁵. Yet the huge volume of gas, that under some scenarios, will be shipped from Turkmenistan once the Trans-Caspian pipeline is built, is further reason to launch a new scalable pipeline.

Launching the second SCP would be an excellent opportunity for Socar to increase its share in the project, and even to become a majority share operator. With a majority stake in the Caucasus section of the whole value chain, Azerbaijan would be able to operate and control part of the strategic project. Baku has both the cash, and the gas resources, and financing pipelines like SCP and TANAP is something the country is happy to do.

Here, Socar and Bp's interests are intertwined. Bp is mostly interested in small scale, low fixed infrastructure with minimum investment and maximum short-term returns. Azerbaijan, on the other hand, is interested in scalable projects, considering the gas reserves in the fields that are currently under development. Bp has already suggested a 42-inch pipeline, 16 bcm of normal capacity, which can be upgraded to 22 bcm maximum with the compressor stations. This capacity is the same as the current SCP pipeline. This type of expansion

³ <http://www.offshore-mag.com/articles/2012/07/shah-deniz-partners-select.html>.

⁴ <http://www.naturalgaseurope.com/bp-tap-pipeline-partnership>.

⁵ <http://eurasianenergyanalysis.blogspot.com/2012/06/trans-anatolian-gas-pipeline-strongest.html>.

would not make sense, considering the possible volume of gas that could be exported from the region in the future.

A 56-inch pipeline with maximum 30 bcm capacity would be wholly consistent with the TANAP pipeline. In this case, the 56-inch pipeline would run until Georgian territory, at which point it would be downsized, due to the mountainous terrain. With the help of two compressor stations in Georgia, the pipeline would be scaled to its maximum capacity.

Socar and Bp have already agreed on the capacity and size of the pipeline, but still need to agree on the share allocation. Bp would not want to relinquish its favorable position in the projects and accept the minority share, letting Socar step in as an operator with all the leverage of controlling the infrastructure.

However, it is highly likely that Bp will have no other choice than to agree. Arguably, Bp might want something in return from Baku. That might be new licensing for the new fields, in addition to what it already has in the Shafag-Asiman field.

Furthermore, Bp has repeatedly stated that Azerbaijan is its priority in the region and that it wants to stay as long as possible. Its lack of penetration into Russia, Turkmenistan and Iraq has led to its local interest. It is entirely logical to expect that Bp will demonstrate a cooperative attitude to Socar, since both of them are in the same consortium.

6.4. TANAP – a Strategic Game Changer?

With the expansion of SCP, Azerbaijan will be able to secure its interests in controlling the potential volume of gas from wellhead till end-users, over half of the value chain. However, this arrangement would not satisfy the broader goal of becoming an influential gas exporting country. The Azerbaijani government, as the owner of the gas, would not want to transport its gas via a pipeline that belongs to a consortium that represents the interests of consumer countries, and to be dependent on an infrastructure where gas producer companies interests are not represented. Similarly, the SD consortium shareholders would be in agreement with such a strategy and support Baku's initiative to build a dedicated, standalone pipeline, which would deliver huge volumes of Azerbaijani, and in the future Central Asian, gas and thus replace Nabucco East in Turkish territory.

The solution that came with announcement of the Trans-Anatolian pipeline on 17 November 2011 was an inevitable game-changer for the entire Southern Gas Corridor. As expected, it declared the pipeline would replace the entire Nabucco East on Turkish soil, following its replacement on Azerbaijani and Georgian territory via the expansion of SCP.

In a manner ideal for all parties of the SD consortium, TANAP would be regulated by international rather than Turkish law. This would mean that the consortium was not dependent on Turkey for legal matters during the operation of the pipeline.

Contrary to what many experts predicted, the legal regulatory framework of the pipeline was not a problematic issue in the TANAP negotiations. It was, however, the main issue for the Botas-Socar transit agreement, signed on 25 October, 2011 after two years of negotiations. It has been agreed that the IGA/HGA⁶ of TANAP will be based on Swiss law.

It was important for Socar to include the terms of transporting 6 bcm of gas for export to the Turkish market via TANAP, and both sides have agreed on these terms. Without this 6 bcm of gas, TANAP is not feasible, as its 56-inch and 32 bcm capacity pipeline will not be economically viable with a startup volume of only 10 bcm.

The transit fee will be charged according to the transit agreement between Azerbaijan and Turkey. The other SD shareholders joining the Trans-Anatolian pipeline will pay transit fees according to the transit agreement based on non-discriminatory principles.

TANAP is fully supported by both the Azerbaijani and Turkish governments. It is also supported by the UK, the USA and the EU, as well as the TAP and even Nabucco consortiums. Bp supports both TANAP and Botas Grid based on different approaches. The first is a strategically important and scalable pipeline/trunkline. The second is cheap, regulated by IGA and GTA⁷ and secured by a Technical Cooperation Agreement signed by Botas, Socar and Bp. It is thus a win-win situation. Socar may also opt for Botas Grid for early gas delivery to Bulgaria-Romania, rather than using SDII.

TANAP released a Request for Information and the TANAP Consortium started negotiation with potential new shareholders by releasing a Letter of Intent and a technical information document for Bp, Statoil and Total for partnership. All three companies will hold 29 per cent in total. It is expected that Bp and Statoil will get 12 per cent each and Total – 5 per cent. Total is an upstream company and so far has not invested in any midstream projects except for SCP. But because Total has a 40% stake in Azerbaijan's Absheron gas field, it would make sense for it to be interested in securing a share in midstream projects such as TANAP. The same is applicable to Bp. Bp also holds no stakes in midstream projects, except for SCP and BTC, but its investment in the Shafag-Asiman field provides incentives for Bp to have transportation assets. Shares of Turkish companies in the project have not yet been defined. It is expected that Botas and Tpaog would hold from 20 per cent. The company

6 IGA, Intergovernmental Agreement, HGA, Host Government Agreement.

7 GTA, General Transportation Agreement.

would also be responsible for transportation of 6 bcm of gas for Turkey via this pipeline. Socar will hold 51 per cent.

However, the EU has a completely different approach from the consumer side at the other end of the network. From the European perspective, a free market creates actionable alternatives. According to EU third party access law, a single company cannot own assets of more than 50 per cent in upstream, midstream and downstream projects. It is obvious that due to fears of a monopoly, the EU will not give third party exemption to the SD Consortium shareholders. Regardless of which evacuation route and pipeline is selected – Italian or South East European (TAP or Nabucco West) – the SD consortium shareholders, including Socar, Bp, Statoil etc cannot own more than a 50 per cent stake along the value chain. How much Socar and Bp will own in the supply chain to sell gas to the gas buyer companies and European end-users will depend on their total stakes in SD, SCP and TANAP.

Even if the SD consortium shareholder companies do not have direct access to the end-users and distribution network in the market, it would still be profitable, indeed lucrative, for them to sell gas to European gas buyer companies. The market price is still high enough to ensure that they will not lose anything.

TANAP also holds geopolitical implications for the parties. Following the signing of the agreement between Azerbaijan and Turkey, Russia and Iran have indicated concerns over the project. Through TANAP, Turkey is aiming to reduce its dependence on Russian and Iranian gas imports in the future with the additional 6 bcm/yr of gas that TANAP would provide. Turkey is anxious about its rocketing demand for gas, and its energy policy is designed to ensure long-term energy security.

Turkey cannot countenance increasing the gas import volume from Russia and Iran, based on simple economics. Iran sells its gas to Turkey for \$585 per thousand cubic meters, which increases Turkey's annual natural gas bill by an extra \$800 million. The price of a thousand cubic meters of natural gas is currently \$400 in international markets. Moreover, much of the problem in the gas trade between Tehran and Ankara derives from a "take or pay" condition in the contract. After the TANAP agreement was signed, Iran increased the gas price for Turkey from \$505 to \$585⁸, the highest price Turkey pays.

Russia has also reacted to the deal between the two "brother" countries, and has threatened Ankara that it will not supply additional volumes of gas to Turkey in case of winter emergencies if the latter buys from Azerbaijan. Although Turkey has recently secured a discount for Russian gas, and pays \$400⁹, this is the average European price. The cheapest and most commercially at-

⁸ <http://www.byegm.gov.tr/yabanci-bultenler.aspx?d=15.03.2012&pg=2&ahid=50189&act=3>.

⁹ <http://www.todayszaman.com/news-270575-turkey-eyes-solution-as-iran-insists-on-unfair-gas-price.html>.

tractive price is the \$330 that Turkey pays for Azerbaijani gas. Consequently, Ankara is more interested in increasing the gas export volume from Shah Deniz in long run.

Russia has also reacted on the political level. The recent announcement from Ashgabat in June 2012 that it will take the disputed Kyapaz/Serdar field case to the International Court of Justice and, more importantly, will sue the Azerbaijani officials for their statements on the field, is no coincidence. Russia has political and economic leverage over Ashgabat, and it should not be ruled out that Turkmenistan is acting with Russia's silent consent.

6.5. SEE or Italian Market: the Interests of Gas Consumer Companies and Shah Deniz Partners

On 29 June, the SD consortium announced that it had selected the Nabucco West project to transport Azerbaijani gas to the South East European markets. Since Nabucco East was replaced by SCP and TANAP, the Nabucco consortium had no choice but to suggest a downsized and abridged version of the project – Nabucco West, which will be significantly cheaper than Nabucco XL and Classic. Apart from the strategic and geopolitical concerns of the SD consortium in being dependent on the Nabucco consortium along the entire value chain, another equally important reason that Nabucco Classic fell out of favor was the commercial viability of the project.

Big and expensive pipelines *with spare capacity* lack commercial appeal, as this makes the transportation costs much higher. For instance, according to a basic calculation based on a sales price assumption of US\$400 million cubic meters in Austrian destination markets in 2020, the netbacks to SD associated with SEEP or Nabucco West are around US\$260 mcm, while the netback of Nabucco XL or Classic is much lower, at US\$125 mcm. Needless to say, the lower infrastructure tariffs mean better margins for the producer. Nowadays – especially since the 2008 crisis – economic concerns prevail.

The other semi-finalist in the pipeline contest is the TAP project, which would deliver SD gas to the Italian market. The markets are different, and have different values. The Southeastern Europe market is a strategic and important market for Azerbaijan as a producer, as well as for the SD consortium, which will be penetrated by 2017 when SDII comes on stream. At present, the gas price in the region is 25 per cent higher than the spot price in Austria. This is only possible because other forces are interfering in the free flow of energy throughout the region. The South East European and Balkan region buys nearly all of its gas from a single supplier, and lacks a sufficient number of connections to alternative energy sources. As a result, the supplier has the power to set the price through long-term contracts.

Nabucco West, as well as TAP could be a game changer in terms of the strategic imperative of reducing Gazprom's market share through the diversification of supply to Central European countries. In the Balkans, Russia's Gazprom can intervene and block pipeline access to third parties. This is only possible because the Russian monopolist sets the gas price, and also owns many downstream assets in the region via joint ventures. Caspian natural gas could change the situation in this market, and as such, is vital for the region.

On the other hand the average price for the Italian hub is marginally higher compared to existing Baumgarten prices. Moreover as the interconnectivity of Balkan gas markets (Greece, Bulgaria, Romania, Hungary, Croatia) expands by 2014-2015, the net back price will fall, especially since the completion of the Gas Interconnection Greece - Bulgaria (IGB pipeline) may offer all the northern Balkan states access to Qatari LNG via the Greek Natural Gas Transportation System. It is quite probable that Gazprom's stranglehold over Balkan gas markets will be broken either by Azerbaijani gas before SDII begins producing in 2018 or by Qatari LNG exports that are already available. That is why the security of demand offered by SD access to a major market like Italy, and via Italy to the core of the European market could constitute a major additional advantage for TAP and the Statoil-Bp alliance.

6.6. Pros and Cons of TAP and Nabucco West

The two final pipeline projects under consideration by the SD shareholders offer SOCAR and its partners several advantages and disadvantages. The major advantages of the Nabucco West option can be summarized as:

- Higher gas prices in the Balkan component of the market as a result of a complete reliance on only one gas supplier.
- Nabucco West, if realized could be a game changer in terms of the strategic imperative of reducing Gazprom's market share through diversification of supply to Southeastern and Central European countries. The TAP project has the same advantages.
- If the planned and EU supported interconnectors are completed between the countries along the Nabucco West route (Bulgaria, Romania, Hungary, Austria) and the Western Balkans (Serbia, Croatia, Bosnia-Herzegovina), they would have an additional asset and strength. Balkan countries may be small markets if viewed separately. However, in combination they could guarantee a solid market for the first 10 bcm/y of SD gas.
- The specific importance for the SD consortium would be the guarantee of access to the German market.

However:

- The TEN (Trans-European Network) financed interconnectivity projects throughout SE Europe are not necessarily dependent on Nabucco. They can develop separately and will be completed several years ahead (circa 2015) of the Nabucco project, or for that matter, TAP.
- The markets along the route are small and gas import volume is limited. It is very difficult to foresee the entire Balkan markets as able to absorb more than 10 bcm/y of new gas supplies beyond 2020. Moreover, as more interconnectors are built and new sources of supply arrive in the Balkans from Arab or East Med sources, the final net back price for the sellers will eventually diminish.
- Furthermore, new discoveries on the Romanian and Bulgarian coasts of Black Sea put the ability of the market to absorb imported gas at risk. For the SD consortium, it is preferable to leave a substantial volume of gas in those countries rather than in the Austrian hub, as it would give Socar an opportunity to get a direct access to the gas buyer companies and end users.
- This is particularly important in three Balkan countries (Albania, Montenegro and, unrecognized by many countries, Kosovo) where no gas has been used. These are new markets and, apart from gas supplies, Socar would have a chance to invest in infrastructure and their downstream markets, as it has been successfully doing with oil products in Georgia, Romania, Ukraine and Switzerland. In this sense, TAP's projected expansion to the markets of the western Balkans is far more appealing to Socar and its partners.
- If Nabucco West would have to execute FEED again due to the reconfigured technical features of the project, it will take at least another year to obtain.

The advantages of the TAP project can be summarized as follows:

- The gas price on the Italian hub is 20 per cent higher than in Western Europe and around 5 per cent higher (depending on seasonal fluctuations) than Baumgartner.
- Solid financial capability. It is still unclear whether Nabucco's finances would make sense in the long-term, as TAP's shareholders' composition changes to include major global, European and regional players that would only increase the pipeline's commerciality. TAP's financial and commercial merits seem to have secured a key ally that may eventually tip the scale in its favour vis-à-vis Nabucco West.

- The pipeline is easily scalable up to 20 bcm/y with minimum investment from 10 to 20 bcm/y and scalability has been a crucial criterion for SDII selection process.
- TAP's shareholders are major players in the European gas market with long experience in building gas transportation projects reinforces the engineering design and deliverability of the TAP. Engineering design and deliverability are part of the criteria used by SDII in the selection process.
- TAP would be well connected to the Italian gas grid to provide firm, freely allocable capacity, not only to a market that is able to absorb several tens of billion cubic meters in the long-run, but would also be capable of reaching through TAG (Trans-Alpine Gas Pipeline) Germany, other Central European markets, as well as other major consumers in Switzerland and France.
- Currently no firm capacity from Italy to Germany is available, but typical flows from Germany and France to Italy will allow for a virtual backhaul of approximately 10 bcm/y. Snam Rete Gas and Open Grid Europe offer capacity in adjacent grids in Italy and Germany.
- TAP recently signed two Memoranda of Understanding and Cooperation with the Croatian and Bosnian system operators, Plinacro and BH-Gas, who both promote the Ionian-Adriatic Pipeline (IAP)¹⁰. Starting at a tie-in point to TAP in Albania, the IAP aims to deliver gas to Albania, Montenegro, Bosnia and Herzegovina, and Croatia. In effect – if it materializes – TAP would be able to guarantee Western Balkans access to Azerbaijani gas as well. TAP has also signed respective Memorandum of Understanding (MoU) with Montenegro and Slovenia.

However:

- Higher gas prices in the Italian market could be a temporary manifestation of oligopolistic market positions. In the future, the Italian market may be better supplied in terms of source diversification as it fully implements the EU Third Energy Package.
- There is a possibility that the Italian market could be oversupplied because of the financial crisis and a projected fall of demand. Furthermore, in the south of the country, there could be an additional volume of 20 bcm/y if all LNG and pipeline import projects (that is GALSI project) are completed.

¹⁰ <http://www.trans-adriatic-pipeline.com/why-tap/benefits-for-south-eastern-europe/>.

- The other possibility that may complicate the situation is that TAP will terminate on the Italian border; as was mentioned above, Snam Rete Gas – the Italian TSO – would ship the gas further to northern Italy. All gas buyers and/or gas shippers will have to deal with Snam. The free pipeline capacity inside the Snam Rete controlled system is under stress as constraints may appear in the system’s ability to transport gas to the north.

Conclusions

Complications abound, dozens of commentators generate a great deal of analyses daily on the Southern Corridor. Yet, neither words nor position papers produce gas, nor do they build pipelines. The SDII consortium needs to make a \$25 billion decision over the next few months that will determine the future of Azerbaijan for decades to come. Everything must be in place over the coming months and not necessarily wait until the self-imposed deadline of June 2013. If the decision is put off, Iraqi, Qatari, North African or East Mediterranean gas will “intervene” and capture the markets that SD might target.

The decision of the SD members will be based on a combination of political and economic criteria that will influence the position of several state and non-state actors. This will not be an easy decision given the complexity of the issue at hand and the fact that the commercial and financial merits of a pipeline project do not guarantee its automatic selection. This could only be the case in a “perfect” commercial environment where (geo)politics do not intervene.

Regardless of the project that will finally be selected the winner of this second – after the completion of the Baku-Tbilisi-Ceyhan oil pipeline – “round” in the Caspian Great Game is clear: Azerbaijani gas and diplomatic influence will flow in greater quantities towards the EU, bringing back to Baku tens of billions of dollars in revenue and political capitalization

7. Azerbaijan: Europeanization of Economy within the Eastern Partnership

Vusal Gasimli

Introduction

In May 2009, the Eastern Partnership (EaP) was initiated by the European Union, to develop closer relations with EU's six neighbors in Eastern Europe and South Caucasus. A Polish-Swedish initiative, the EaP is a response to the Union for the Mediterranean, proposed by France as a partnership with the countries bordering the EU in the South¹. As the main economic partner of South Caucasus countries the EU, endeavors to transform the bilateral economic relations of its Member States into an overall policy that would have a wider impact on this very region within "Eastern Partnership" initiative. The Partnership would include new association agreements including Deep and Comprehensive Free Trade Agreements (DCFTA) with region countries, promote democracy and good governance, strengthen energy security, promote sector reform and environment protection, encourage people to people contacts, support economic and social development and offer additional funding for projects to reduce socio-economic imbalances and increase stability². Association Agreements (AAs) would stimulate six target countries of EaP, including Azerbaijan to develop a closer relationship. DCFTA will contain legally binding commitments on regulatory approximation in trade-related areas and will thus contribute to the modernisation of the economies of the partner

¹ J. Söderström, *Georgia and the Eastern Partnership Democratization without Conflict Resolution?*, Policy Brief No. 22, Institute for Security and Development Policy, 22 April 2010, p. 1, http://www.isdp.eu/images/stories/isdp-main-pdf/2010_soderstrom_georgia-and-the-eastern-partnership.pdf (last retrieved on 30 June 2012).

² Eastern Partnership, http://eeas.europa.eu/eastern/index_en.htm (last retrieved on 8 June 2012).

countries and anchor the necessary economic reforms³. DCFTAs will be established only once Azerbaijan has joined the WTO.

Although Azerbaijan has not yet concluded its World Trade Organization accession negotiations and not launched negotiations on DCFTA, the EU-Azerbaijan economic relations have been growing robustly. The EU has become Azerbaijan's first trade partner, with 32.27 per cent share in its import and 59.38 per cent share in its export. More than 80 per cent of the EU's trade with the South Caucasus belongs to Azerbaijan. Azerbaijan's exports to the EU are heavily lead by oil and oil products. In the future, Azerbaijan's importance as gas supplier to the EU will grow.

Trade and economic relations between the EU and Azerbaijan is governed by the "Partnership and Cooperation Agreement between the European Union and the Republic of Azerbaijan" which was signed in Luxembourg on 22 April 1996 and came into force in 22 June 1999. This agreement covers all possible issues, including social and economic spheres of cooperation between Azerbaijan and the EU. The agreement sets out ensures frameworks for all kinds of cooperation between Azerbaijan and the EU, except military area. The PCA was signed for a 10-year period and has been extended in one-year increments since⁴. In response to EU expectations on private sector involvement and an improving business climate, Azerbaijan has upgraded its position in *Doing Business* report delivered by the World Bank. Azerbaijan gradually diminishes the bottlenecks for the development of business and thus outstrips the majority of comparator economies on the ease of business. Globally, Azerbaijan stands 66th in the ranking of 183 economies on the doing business. Thus, investment flows between Azerbaijan and the EU interweaving their economies.

It should be noted that the growth in employment and the creation of one million new jobs in recent years in Azerbaijan coincides the efforts of the EU focusing on enhancing employment, decent work and social cohesion. In 2011, Azerbaijan established the State Labour Inspection Service (SLIS) under the Ministry of Labour and Social Protection of Population⁵.

Azerbaijan accepted the Revised European Social Charter on 2 September 2004 and has accepted 47 of the 98 paragraphs⁶. An agreement was signed in February 2010 by the Government, the Azerbaijan Trade Union Confederation (ATUC) and the Azerbaijan Confederation of Entrepreneurs (ACE) for

³ Communication from the Commission to the European Parliament and the Council, Commission of the European Communities, Bruxelles, 3 December 2008, p. 4.

⁴ European Union and Azerbaijan, Partnership and Cooperation Agreement (PCA), http://economy.gov.az/eng/index.php?option=com_content&view=article&id=206&Itemid=70 (last retrieved on 8 June 2012).

⁵ ENP Package Country Progress Report, *Azerbaijan*, Bruxelles, 15 May 2012, p. 2.

⁶ Azerbaijan and the European Social Charter, http://www.coe.int/t/dghl/monitoring/socialcharter/countryfactsheets/Azerbaijan_en.pdf (last retrieved on 8 October 2012).

the period 2010-2011. This agreement states that the population's income levels should gradually be brought to levels compatible with the requirements of the Revised Charter and a gradual approach should also be taken for calculating the minimum wage, basic pension and for the criteria of "need" used to decide on social assistance⁷.

The study found that in Azerbaijan a diamond-shaped society has been formed. People who consider they belong to the middle class stand in the middle of the diamond, as the largest segment. According to the estimations of Asian Development Bank, in 2030 the increase of Azerbaijan's middle class will be the highest in Asia⁸.

Azerbaijan is currently participating in regional policy dialogues or Pilot Regional Development Programmes (PRDP) modelled on EU cohesion policy. In Azerbaijan a meeting was held in May 2011 to discuss PRDPs and pilot projects are awaited in 2012⁹.

The Eastern Partnership, an important panel for bilateral and multilateral discussions, is a tool for intensifying economic relations between Azerbaijan and the EU. As Azerbaijan is aiming to diversify its export-driven economy, it can allow the entrance to the EU's internal market of 500 million consumers. The potential of free access to the European market will lead export-oriented FDI (Foreign Direct Investment) to the non-oil sector of the economy of Azerbaijan, with the further purpose of exporting to the EU. The Eastern Partnership will lead to greater harmonization of the economies of Azerbaijan and the EU. Moreover, the Eastern Partnership promises prospects for modernization for Azerbaijani economy and brings it closer to the EU standards. Modernization is considered as a key force in economic growth. In the most fundamental sense, there are only two ways of increasing the output of the economy: 1) you can increase the number of inputs that go into the productive process, or 2) if you are clever, you can think of new ways in which you can get more output from the same number of inputs¹⁰.

The impact of innovation on economic growth was not a spontaneous discovery arising from the mind of one individual. Rather, it developed through time. The success of the modernization suggests how innovation is required to vitalize economic growth and how its absence is a limitation in development.

⁷ *Ibidem*.

⁸ «The Rise of Asia's Middle Class», Asian Development Bank, 2010, p. 16, http://www.iberglobal.com/Archivos/asia_middle_class_adb.pdf (last visited 14 September 2012).

⁹ Inspiring non-EU countries, European Commission, http://ec.europa.eu/regional_policy/cooperate/international/neighbourhood_en.cfm (last retrieved on 1st September 2012).

¹⁰ Nathan Rosenberg, *Innovation and Economic Growth*, Stanford University, <http://www.oecd.org/cfe/tourism/34267902.pdf> (last retrieved on 6 October 2012).

Benoît Godin (2006)¹¹ explains the theoretical framework on relations between science and technology, and economy. So the linear model of innovation postulates that innovation starts with basic research, then adds applied research and development, and ends with production and diffusion:

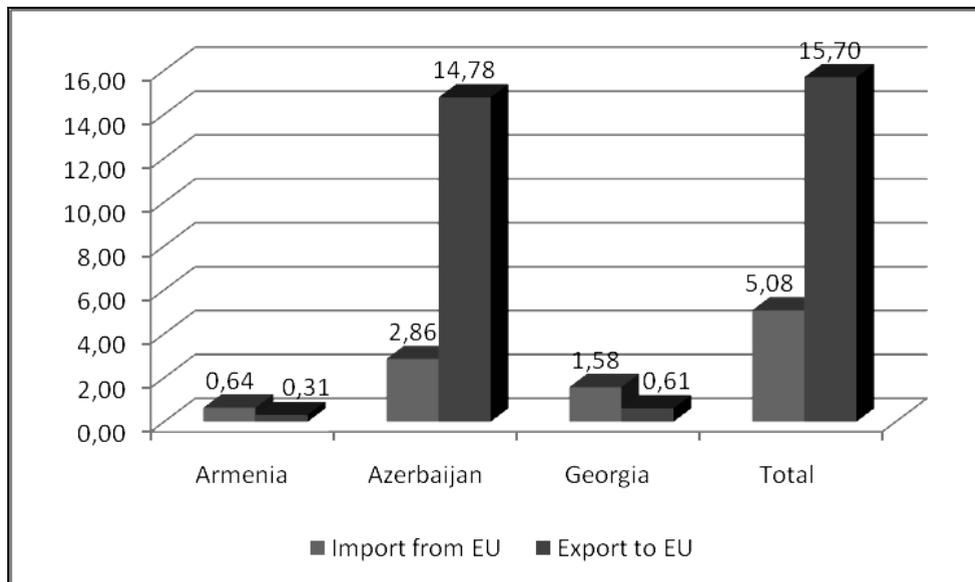
7.1. Trade is Engine for Integration

The European market is important for Azerbaijan from the point of view of diversification of its export geography. When addressing European markets, Azerbaijan has to take into account prices, transportation and logistics infrastructure, standards and sustainability, as well as risks. Analysis based on trade complementarity and export similarity proves the significance of the EU market for Azerbaijan. In order to enlarge access to the European markets, the Azerbaijani government supports exporters to make packaging, labelling and certification in line with the EU standards. The new Customs Code of Azerbaijan, which came into force in January 2012, is intended to bring the customs procedures into line with international standards, make simpler rules for registering transactions, introduce a one-stop shop, modernize the customs infrastructure, and accelerate Azerbaijan's membership in the WTO. Having met the EU order, Azerbaijan can enlarge the value chain toward upstream and downstream and thus expand specialization and efficiency of its economy. EaP requirements demand Azerbaijan develop the capacity of the economy in order to manage the competitive pressure of the future single market with EU and show a readiness to adopt all the EU *acquis*.

Since 2004, the EU has become the main trading partner of each country in the South Caucasus (in 2010 trade with the EU represented 32 per cent of overall trade for Armenia, 42.5 per cent for Azerbaijan and 26.1 per cent for Georgia)¹². Although the EU is the major trade partner of the South Caucasus, its share of overall EU trade remains less than 0.5 per cent in 2010.

¹¹ Benoît Godin, «The Linear Model of Innovation: The Historical Construction of an Analytical Framework Science», *Technology, & Human Values*, Vol. 31, No. 6, 2006, pp. 639-667.

¹² South Caucasus, European Commission, <http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/regions/south-caucasus/> (lastretrieved on 12 June 2012)

Figure 7.1. EU Trade with the South Caucasus in 2011 (billion euros)

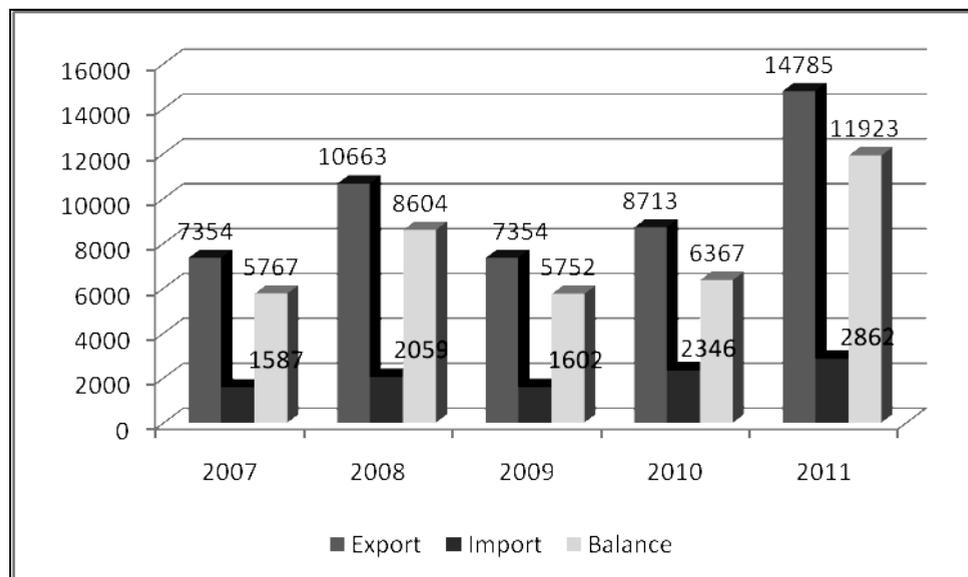
Source: European Commission

56.3 per cent of import and 94.14 per cent of export between the EU and South Caucasus belongs to Azerbaijan. Azerbaijan economy is more integrated with the EU than two other South Caucasus countries. Trade with the EU consists of 35.4 per cent of GDP in Azerbaijan. The same figures are 11.8 per cent and 13.1 per cent for Armenia and Georgia respectively. EU's trade with Armenia remains very small. Even the absence of WTO membership and the Deep and Comprehensive Free Trade Agreement hasn't been able to prevent economic integration of Azerbaijan and the EU.

Azerbaijan with its €14,785.5 million export volume, is one of the top 25 import partners of the EU. As an import partner of the EU, Azerbaijan outpaces even Israel, Egypt, Pakistan and Australia. Azerbaijan's share in the total the EU import is 0.9 per cent equal to the Andean Community's share. Azerbaijan is ranked 54th export partner and 36th trade partner of EU. The other South Caucasus countries are further down the ranking.

Azerbaijan increased its share of total EU imports from 0.5 per cent in 2007 to 0.9 per cent in 2011. In fact, Azerbaijan's share of total the EU exports doubled in this period from 0.1 per cent to 0.2 per cent. On the other hand, the EU share of total imports from Azerbaijan shrunk from 29.4 per cent to 25.4 per cent between 2007 and 2010, while the EU share of total exports increased from 28.6 per cent to 47.9 per cent in the same period.

Figure 7.2. Azerbaijan’s trade turnover with the EU (million euros)



Source: European Commission

According to the share in the trade turnover of Azerbaijan in 2011 the EU outpaces US by 5.9 times, Russia by 6.2 times, Israel 5.6 times, Ukraine by 8.7 times, Turkey 12.5 times etc.

The growth of shares in trade between the EU and Azerbaijan proves the increasing level of integration of the two economies.

Unlike Azerbaijan, the EU share of total imports and exports of the other two South Caucasus countries is exponentially decreasing. For example, the EU share of total exports of Georgia fell dramatically from 34.1 per cent to 18.3 per cent between 2007 and 2010. This trend is also true for Armenia which dropped from 48.8 per cent to 48.1 per cent. The EU share of total imports of Armenia decreased in 2007-10: from 34.7 per cent to 27.5per cent. The EU share of total imports of Georgia at the same time period shrunk from 30.7 per cent to 28.4 per cent.

Export from Azerbaijan Republic to the European Union (thousand euros)

	Total Export	Export using GSP
2001	1,306,040.2	8,404.6
2002	1,345,064.5	64,720.5
2003	1,302,202.3	16,776.5
2004	1,291,671.4	25,567.8
2005	2,507,856.3	49,068.3
2006	5,448,352.9	31,983.3
2007	7,354,006.1	30,871.5
2008	10,663,306.0	19,879.0
2009	7,353,778.7	35,419.2
2010	9,712,789.3	16,534.3

Source: Eurostat

Bilateral trade between Azerbaijan and the EU has risen by two times over the most recent four years, reaching €17.6 billion in 2011. For the years of 2007-2011, bilateral trade between the EU and Georgia was volatile and increased by more than 40 per cent achieving €2.2 bln, while the trade turnover with Armenia has not changed, remaining at 961 million euro. Taking into account the inflation rate, the real volume of trade between the EU and Armenia has decreased.

Three per cent of EU imports of mineral fuels, lubricants and related materials came from Azerbaijan in 2011. In last year, 0.2 per cent of machinery and transport equipment, 0.2 per cent of food and live animals, 0.1 per cent chemicals and related products of EU imports were exported from Azerbaijan to the EU. Azerbaijan's exports to the EU are almost entirely composed of hydrocarbons, showing a low level of ramification in exportable goods from Azerbaijan.

In 2011 the EU represented 47.6 per cent of Azerbaijan's imports in the field of machinery and transport equipment, 20.1 per cent of miscellaneous manufactured articles, 14 per cent of manufactured goods classified chiefly by material, 9.5 per cent of chemicals and related products, 4 per cent of food and live animals, 2.5 per cent beverages and tobacco, 0.8 per cent of crude materials, inedible, except fuels.

Azerbaijan's foreign trade turnover with the EU countries in 2011 (\$US)

Countries	Export	Percentage %	Import	Percentage %	Turnover	Percentage %
Italy	9,340,999.1	35.2	254,566.4	2.6	9,595,565.6	26.4
France	4,036,652.6	15.2	608,857	6.2	4,645,509.6	12.8
Germany	523,363.9	2	845,281	8.7	1,368,644.9	3.8
Spain	15,871.7	0.1	485,722.8	5	501,594.5	1.4
UK	410,410.5	1.5	35,907.6	0.4	446,318.2	1.2
Portugal	324,860.	1.2	2,594. 8	0	327,454.9	0.9
Spain	283,792.9	1.1	35,587. 3	0.4	319,380.2	0.9
Czech	203,903.8	0.8	102,677.9	1.1	306,681.7	0.8
Malta	268,578.3	1	364	0	268,942.3	0.7
Greece	208,123.8	0.8	8,863.5	0.1	216,987.4	0.6
Netherland	6,808.5	0	141,173.8	1.5	147,982.2	0.4
Poland	3,110.5	0	119,516.7	1.2	122,627.2	0.3
Austria	3,965.4	0	93,583.1	1	97,548.5	0.3
Sweden	601.1	0	85,733	0.9	86,334.1	0.2
Cyprus	68,022.2	0.3	2,680.4	0	70,702.7	0.2
Romania	53,041.9	0.2	14,895.9	0.2	67,937.8	0.2
Finland	69	0	65,892.1	0.7	65,961	0.2
Belgium	2,888.9	0	56,840.2	0.6	59,729.1	0.2
Denmark	1,422.4	0	43,196	0.4	44,618.4	0.1
Hungary	35.3	0	36,749. 6	0.4	36,784.9	0.1
Luxembourg	130.9	0	27,775.7	0.3	27,886.6	0.1
Latvia	14,013.2	0.1	12,896.5	0.1	26,909.7	0.1
Lithuania	5,026.1	0	20,018.3	0.2	25,044.4	0.1
Slovakia	146.1	0	18,970	0.2	19,116.1	0.1
Ireland	42.4	0	12,476.7	0.1	12,519.2	0
Slovenia	6.3	0	11,053.6	0.1	11,059.9	0
Estonia	663.8	0	4,141.9	0	4,805.7	0
EU total	15,776,550.7	59.4	3,147,995.9	32.3	18,924,546.6	52.1
Others	10,794,347.6	40.6	6,607,972.9	67.7	17,402,320.4	47.9

Source: Azerbaijan State Statistical Committee

In its turn, the EU is the first import and export partner of Azerbaijan.

The scale effect indicates what happens to the ranking of a trade partner as the GDP varies over partners.

Azerbaijan imports goods mostly from the EU countries, like Germany (8.7%), France (6.2%) and Italy (2.6%). Germany is the main partner in terms of import to Azerbaijan. Economic cooperation between Germany and Azerbaijan has been growing significantly. As the second largest exporter in the world – Germany strives to acquire an appropriate market niche in Azerbaijan. German exports to Azerbaijan – which grew to a record €829 mln in 2011, compared with just €431 mln in 2009 – consist mainly of motor vehicles, iron and steel goods, machinery and production facilities¹³. Germany is the third largest exporter to Azerbaijan. Azerbaijan's imports from France include medicine, pharmacology products and perfume, chemicals, meters and motor vehicles. Italy mainly exports food, oil products, knitted garments, pipes for

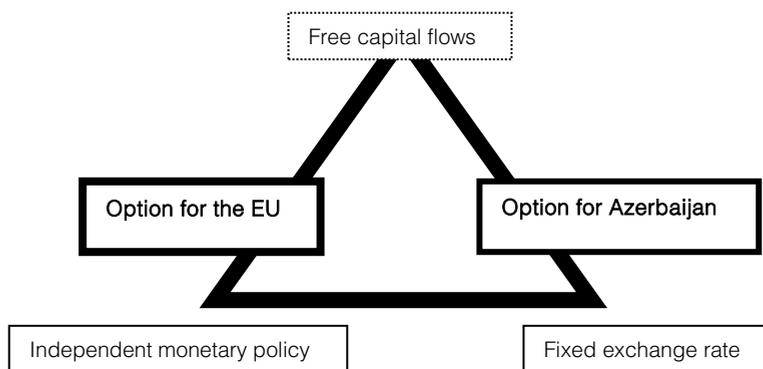
¹³ Economic relations, Federal Foreign Office, http://www.auswaertiges-amt.de/EN/Aussenpolitik/Laender/Laenderinfos/01-Nodes/Aserbajdschan_node.html (last retrieved on 9 June 2012).

the oil sector, tobacco, leather, vehicles and furniture to Azerbaijan. Azerbaijan's biggest trade partner in the world and of course in Europe is Italy.

7.2. Investment Flows between the EU and Azerbaijan

Mobility of capital is an essential element of the EU's four basic freedoms: circulation of goods, persons, services and capital. According to "the impossible trinity" theory each nation must choose two out of three tools, such as free capital flows, a fixed exchange rate, and independent monetary policy. Azerbaijan has chosen free capital flow and a fixed exchange rate, while the EU prefers free capital flow and an independent monetary policy. So free capital flow is a common choice for the EU and Azerbaijan. It allows both sides to facilitate capital mobility.

Figure 7.3. The impossible trinity for the EU and Azerbaijan



In terms of investment, Azerbaijan is deepening and broadening its relationship with Europe. The country's huge potential for trade, as well as investment, is attracting growing interest from Europe. European investment inflows play a significant role, not only in convey of technology and for the integration of Azerbaijan economy into global production networks. Privatization, de-regulation and resource endowments provide a major stimulus to European FDI inflow to Azerbaijan. In the first stage of independence, Azerbaijan, with a low savings level, was demanding a greater amount of the FDI. That had a relatively larger impact on growth prospects. At that time, Foreign direct investment inflow, particularly into the oil and gas sector was gradually increasing. Bp, Statoil, Total, Ramco and other oil companies were first harbingers of European investment to Azerbaijan. The 2005 UNCTAD (United Nations Conference on Trade and Development) Trade & Investment publication quoted Azerbaijan as no. 1 globally as per the FDI Inflow Performance

Index¹⁴. After receiving an oil and gas windfall Azerbaijan, with a high domestic saving/investment level, is not demanding as great an amount of FDI inflow, as it had before. However FDI, as well as European-origin investment attraction, is important for the diversification of the economy and evasion of the “Dutch disease”. Azerbaijan provides a guarantee for foreign investors against adverse changes in legislation, nationalization and requisition, also guarantees compensation for damages and repatriation of profits. Azerbaijan has more than 20 bilateral treaties on the mutual protection of investments with European countries. The country also has a high FDI welcome index, comprising a small number of procedures needed for a business start up, the number of days needed to obtain authorization and the ease of establishing a foreign subsidiary. This is important in order to attract European investment, not only in resource exploration and transportation, but in the non-oil sectors, too.

The share of the investment directed to the primary (initial) capital during 2002-11 from the Member States of the European Union, Great Britain, Germany, France, the Czech Republic, Italy, Luxembourg, Austria, Greece, the Netherlands, Latvia, Finland and Denmark, has been US\$15,339.17 mln. 51.05 per cent of foreign investments directed to the primary (initial) capital belong to these countries. The volume of investment into the primary (initial) capital for January-March of 2012 are: Great Britain 262.9 mln, the Czech Republic 20.04 mln, France 9.2 mln, Germany 1.1 mln, and Italy 0.1 mln.

Over the years 1995-2010, foreign direct investment into non-oil sector of Azerbaijan economy from EU Member States, Great Britain, France, Germany, Italy, the Netherlands, Cyprus and Ireland, was US\$1,285 mln. Moreover, 29.7 per cent of the foreign direct investments into non-oil sectors belongs to these countries.

According to the State Statistical Committee, the United Kingdom is the biggest foreign investor in Azerbaijan with a US\$1.6 billion investment in 2010. The United Kingdom attaches great significance to energy and transport infrastructure in Azerbaijan and the safe delivery of oil and gas resources to Europe. Norway is the second largest European investor with investments of US\$142 mln in 2010. The group of big European investors also included Germany, France, the Czech Republic, Italy, Switzerland, Luxembourg and Austria.

¹⁴ Doing Business in Azerbaijan, AZPROMO, 2010, <http://www.azpromo.az/InvestBusinessIncorporation.html>, (last retrieved on 9 June 2012).

Foreign investment directed to fixed capital in Azerbaijan by European countries (thousand AZN*)

Country	2002	2003	2004	2005	2006	2007	2008	2009	2010
UK	512,638.2	1,253,412.6	1,788,918.1	1,884,732.4	1,547,680.4	1,222,640.10	1,025,571.7	800,891.6	1,247,238.5
Norway	99,269.6	198,875.7	230,197.3	256,751.6	225,336.3	213,144.0	139,034.2	70,526.3	111,866.2
Germany	5,228.8	12,894.5	14,358.7	88,599.2	214,433.5	36,016.30	30,099.1	300.5	700.0
France	2,335.1	10,902.0	13,266.2	17,122.1	19,586.4	13,314.10	27,648.8	40,573.9	29,451.0
Czech	-	-	-	-	17,830.3	22,171.50	31,438.4	34,581.3	216,695.1
Italy	-	10902.0	-	17,122.1	11,846.5	1,716.20	777.7	803.7	321.0
Switzerland	1,086.0	59.9	51.9	1,024.3	85.4	3,327.70	1690.3	25,716.1	2,185.4
Luxembourg	57.7	34.9	29.5	29.7	59.2	18.1	2280.5	-	11.1
Austria	-	170.6	-	-	45.4	969.3	968.6	2,183.3	551.8

*1 AZN equals 1.28 US\$

Source: Azerbaijan State Statistical Committee

Azerbaijan is not only attracting FDI from Europe, but it has also successfully increased investment activity in Europe. For example, Socar's downstream activity in Europe allows the company to deepen the value chain and increase its profit. On the other hand, penetration to downstream activity increases the integration of the Azerbaijani and European economies. Socar has also invested more than US\$85 mln in Ukraine since 2009 to open petrol stations and build an LNG-terminal in Ukraine. Romania and Switzerland are going to become the next market in the Europe where Socar appears as a retail supplier of petroleum products¹⁵.

In the future Azerbaijan might hedge its bets against euro crises:

1. Keeping a considerable part of strategic currency reserves (reaching to US\$50 bln) in euros, Azerbaijan indirectly supports the European economy. Azerbaijan could positively impact the European economy by reshaping the architecture of its financial resources.
2. Deficit of payment balance is one of the main macroeconomic challenges for European countries. Surplus of financial resources allows Azerbaijan to increase investment activity in Europe to meet the gap in the payment balance.
3. Azerbaijan might endure this tough time together with other European partners within the framework of the bailout programs of the Eu-

¹⁵ Vusal Gasimili, Socar's Penetration Toward Downstream, at <http://www.anatoliadaily.com/irst/index.php/authors/40-all-articles-of-vusal-gasimilis-/1011-socars-penetration-toward-downstream> (last retrieved on 15 June 2012).

European Financial Stability Facility (EFSF) and European Financial Stability Mechanism (EFSM).

7.3. Transport: Following Reforms within Eastern Partnership

A high level of transport safety, security and social standards is crucial for closer integration of the partner countries in the EU's transport system¹⁶. In Azerbaijan, the economy loses an estimated US\$1.2 bln or more every year as a result of traffic injuries and fatalities¹⁷. Sector policy reforms should considerably advance allowing progress towards strong and sustainable institutional arrangements and effective multisectoral interventions.

The TRACECA (Transport Corridor Europe-Caucasus-Asia) countries, as well as Azerbaijan, have benefited significantly in the past decade from the signing of the TRACECA Multilateral Agreement and their participation in the TRACECA process and the Baku initiative. Substantial support has been provided by the EC to assist the authorities in improving the design, management and maintenance of the physical infrastructure, strengthening institutional and human resource capacities and harmonising legislation, regulations and standards not only at the national level, but also at the intra- and inter-regional levels¹⁸.

The EU has begun projects in the EC Neighborhood and Central Asian countries, as well as in Azerbaijan to ensure that transport safety and security environments are in line with the European standards. The current comprehensive EU policies and legislation and other measures to deal with road traffic injury are already institutionalizing a "safe system approach", rather than a group of parallel interventions¹⁹. Azerbaijan needs to achieve to better road conditions, safe driving behavior, and effective enforcement of traffic laws and regulations, in accordance with the EU order.

Azerbaijan, as the partner of TRACECA countries and the EU and China, might face the challenge of differential safety and security legislation, regulations and standards among them. As a result, variety can create an ad-

¹⁶ Joint Communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, Eastern Partnership: A Roadmap to the autumn 2013 Summit, Bruxelles, 15 May 2012, p. 17.

¹⁷ «Confronting "Death on Wheels": Making Roads Safe in Europe and Central Asia», *World Bank*, 2010, <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/AZERBAIJANEXTN/0,contentMDK:22550137~menuPK:301919~pagePK:2865066~piPK:2865079~theSitePK:301914,00.html> (last retrieved on 19 July 2012).

¹⁸ Land Transport Safety and Security for Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Ukraine, Uzbekistan, Inception Report, The European Union's TRACECA programme, June 2009, <http://www.traceca-org.org/fileadmin/fm-dam/TAREP/62jra/62jra2.pdf> (last retrieved on 9 June 2012).

¹⁹ «Confronting "Death on Wheels": Making Roads Safe in Europe and Central Asia», *World Bank*, 2010, <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/AZERBAIJANEXTN/0,contentMDK:22550137~menuPK:301919~pagePK:2865066~piPK:2865079~theSitePK:301914,00.html> (last retrieved on 29 June 2012).

ministrative barrier to trade. At a regional level, Azerbaijan needs to harmonize its transport strategy with that of neighbouring states, particularly Georgia, Turkey and the Central Asian countries along the East-West axis, and Russia and Iran in the North-South direction²⁰.

In 2011, the European Commission launched a new Neighbourhood Transport Action Plan²¹. It contains twenty measures on aviation, maritime and inland waterways, road transport, rail transport and infrastructure connections. In reply to the EU order, Azerbaijan continues to improve its transport sector. The government took significant steps to encourage private participation in the sector's various segments, to develop multimodal transport and to reduce the time spent on export-import and transit operations: Massive investment in infrastructure, that is US\$9 bln over the 2005-09 period (US\$4.5 bln in road construction and rehabilitation), US\$ 13 bln for the modernisation and the construction of roads, railways and other physical infrastructure, including ports over the 2010-15 period²².

Azerbaijan continued to focus on the improvement of the road infrastructure and the upgrading of railways and took first steps to join the Convention Intergovernmental Organisation for International Carriage by Rail²³.

The main directions of investments in the field of transport in Azerbaijan

Type of transport		Activities
1	Sea transport	Engineering and construction works for the new Alyat International Sea Port, development of sea freight shipping and services.
2	Rail transport	Rehabilitation of the Baku-Alyat-Beyuk Kesik line (connecting the new international seaport of Alyat with the Georgian-Azeri border) for a €1 bln. investment, rehabilitation works and supply of new locomotives and equipment within the railway modernisation programme, track transportation services for agricultural products.
3	Roads and bridges	Highway improvement project, 14 km-long highway bridge over Baku Bay to be built by an international consortium on a build-operate-transfer basis for an estimated cost of US\$1.5 to 1.8 bln.
4	Aviation	Launch of new routes, development of aviation services, opening of shops in the airports.

Source: The table is compiled by author based on information given in www.east-invest.eu.

²⁰ Azerbaijan as a Regional Hub in Central Eurasia: «A Conversation with Taleh Ziyadov, Azerbaijan in the world», *ADA Biweekly Newsletter*, vol. 5, nn. 16-17, 1st September 2012.

²¹ European Commission launches new Neighbourhood Transport Action Plan, Eastern Partnership Community, 7 July 2011, <http://www.easternpartnership.org/community/events/european-commission-launches-new-neighbourhood-transport-action-plan> (last retrieved on 19 June 2012).

²² Azerbaijan Transport and Logistics, East Invest, <http://www.east-invest.eu/en/Investment-Promotion/Azerbaijan-2/AZ-transport-and-logistics> (last retrieved on 28 June 2012).

²³ ENP Package Country Progress Report, *Azerbaijan*, Bruxelles, 15 May 2012.

Following reforms within the Eastern Partnership, Azerbaijan has increased its importance as a cross-point of the East-West and the North-South transport corridors. Improvement of the infrastructure has set up a sound foundation for the building a modern, competitive and developed transport hub. To this end Baku-Tbilisi-Kars (BTK) railroad is also a security seatbelt to be fastened in case of emergency. The war between Georgia and Russia in 2008 proved the importance of an emergency gate from the Caucasus and Caspian base bypassing Russian control. Empowering the secure pathway between Russia and its outpost, Armenia, ensures an airshaft for this region, which the Kremlin considers its own backyard²⁴.

7.4. SME Facility

Within the Eastern Partnership, the EU aims to contribute to the improvement of the business climate in the neighbouring six target countries, as well as in Azerbaijan. The “East Invest - Eastern Partnership/SME Facility - Project East Alliance” is a new regional investment and trade facilitation project for the economic development of the Eastern Neighbourhood region²⁵.

According to the EU requirements, Azerbaijan has promoted and facilitated investment, and economic cooperation with the EU. Business environment has also improved in Azerbaijan. It has to be mentioned that according to the World Economic Forum’s Global Competitiveness Report general indicators (subindexes) for Basic Requirements, Azerbaijan rose this year from 59th to 56th, for Efficiency Enhancers from 77th to 67th, and for Innovation and Sophistication Factors from 67th to 57th. Here, it has to be remembered that the Basic Requirements subindex includes institutions, infrastructure, macroeconomic environment and health and primary education; the Efficiency Enhancers subindex covers higher education and training, goods market efficiency, labour market efficiency, financial market development, technological readiness and market size; and the Innovation and Sophistication Factors subindex comprises of business sophistication and innovation.

The Azerbaijan Export and Investment Promotion Foundation (AZPROMO) organizes trade/investment missions, and contributes SME’s participation to regional fairs and B2B meetings with EU counterparts. AZPROMO also provide technical assistance to SMEs to enhance their networking and trading competences and opportunities. Close cooperation with the priva-

²⁴ Vusal Gasimili, «The Iron Ground for the Silk Road», *Strategic Outlook*, 2012, <http://www.strategicoutlook.org/caucasus/2012/04/the-iron-ground-for-the-silk-road/error.html> (last retrieved on 9 June 2012).

²⁵ East Invest, Eurochambres, <http://www.eurochambres.eu/Content/Default.asp?PageID=274>.

te sector allows AZPROMO to act both as an advisor and agent of the government in implementation of new business initiatives²⁶.

The EU provides a financial support instrument, SME Facility, in other words development of credit availability and affordability for SME. Under this “flagship initiative” the European Bank for Reconstruction and Development (EBRD) Business Advisory Services (BAS) and the Enterprise Growth Programme (EGP) have been improving the competitiveness and level of sophistication of the MSME (Micro, Small and Medium Enterprise) sector in Azerbaijan. BAS has completed 562 projects in Azerbaijan and received a total of €2.2 mln and EGP has completed 34 projects and received a total of 2.3 mln from the EU and other donors²⁷. The European Investment Bank (EIB) also finances projects in Eastern Partnership countries, as well as in Azerbaijan on the basis of an EU Council and European Parliament €3.8 bln mandate for the period 2007-13²⁸. The Azerbaijan Republic National Fund for Entrepreneurship Support (NFES) provides concessionary credits (annually 7 per cent, and annually 5 per cent for the projects directed to development of mass media) for entrepreneurship. The main priority of the activities of NFES are: production of competitive and export-oriented food and other industrial products with usage of modern technologies; production of agricultural products; establishment of a modern cold storage complex; development of small entrepreneurship.

However, according to the Doing Business Report, there are some challenges (dealing with construction permits, getting electricity and trading across borders) for SME development in Azerbaijan. For example, Azerbaijan is ranked at 170 out of 183 economies on the ease of trading across borders in Doing Business-2012. Research shows that exporters in developing countries gain more from a 10 per cent drop in their trading costs than from a similar reduction in the tariffs applied to their products in global markets²⁹. The Azerbaijani government is implementing measures to facilitate trade – including single windows, risk-based inspections and electronic data interchange systems as recommended in Doing Business.

Azerbaijan’s most competitive non-oil fields with export potential have been defined through various research papers. Apples, cherries, grapes, apple juice, early potatoes, greenhouse vegetables and carpet industry have high level

²⁶ Vision and mission, AZPROMO, <http://azpromo.az/AboutMission.html>, (last retrieved on 1st September 2012).

²⁷ Small Business Support in Azerbaijan, EBRD, <http://www.ebrd.com/pages/workingwithus/sbs/where/azerbaijan.shtml>, (last retrieved on 15 September 2012).

²⁸ EIB continues to support smaller projects in Eastern Partnership countries, European Investment Bank, <http://europa.eu/rapid/pressReleasesAction.do?reference=BEI/12/67&format=PDF&aged=0&language=EN&guILanguage=en> (last retrieved on 15 September 2012).

²⁹ «Doing Business in a more transparent world, Economy Profile: Azerbaijan», *World Bank*, 2012, p. 80.

of comparative advantage measured by domestic resource cost analysis³⁰. Moreover the Azerbaijani government declared ICT and tourism one of the main directions of economic development. So in supporting SME in line with the EU requirements, Azerbaijan tries to take into account the advantages of economy.

Signing the Association Agreement with Azerbaijan will support SME in this country. Negotiations of the Association Agreement have commenced with Azerbaijan and are advancing well; however, the step to conduct negotiations on Deep and Comprehensive Free Trade Areas (DCFTAs) was not taken. Azerbaijan should have made progress towards WTO accession as a precondition for starting DCFTA negotiations³¹. Because DCFTA negotiations presuppose membership in the WTO. The European Commission supports the idea that negotiations on the Association Agreements with Azerbaijan ought to be well advanced by the fall of next year.

Conclusions

Since independence, the EU's Azerbaijan policy has been driven by a combination of engagement and balancing. The EU has put too much weight on the first while conducting policy on economic cooperation. The Azerbaijani government understands that rather than relying only on fiscal and monetary stimulus to maintain economic development, the country should provide reforms in parallel. However, the Azerbaijani government doesn't face a false dichotomy, such as trade-offs between stimulus packages and reforms initiated by EU. On the contrary, the government manages to stimulate policy and enact reforms to the extent possible.

The South Caucasus represents a narrow market for the EU: the three states have fewer than 18 million citizens, the greater part of whom have a low standard of living, with the exception of the Azerbaijani middle classes. In fact, only Azerbaijan, which has a per capita GDP of US\$10,202 has experienced rapid development, while Georgia and Armenia continue to be poor, with per capita GDP levels of US\$5,491 and US\$5,384 respectively.

Azerbaijan became the main economic partner of the EU in the South Caucasus after the organization began implementing its "politics of inclusion". Azerbaijan successfully reflects the changing demands of the European order. The convergence in the field of energy issues between the EU and Azerbaijan is based on bilaterally developed rules. On the other hand, the mode of external

³⁰ *Domestic Resource Cost Analysis of Azerbaijan*, Presented by Chemonics International (United States Agency for International Development - USAID), 2009.

³¹ Joint Communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, Eastern Partnership..., cit.

governance of the EU in the field of economic cooperation and trade is embodied as the convergence toward EU rules.

Complementarity between the economies of the EU and Azerbaijan continue to grow. This is proven by the increasing probability of matching of the export structure of Azerbaijan with the import structure of the EU and vice versa. The lower value of the complementarity index indicates potential competitiveness between the two economies and the higher value implies potential complementarities. Between 2007 and 2011, the amount of trade turnover between Azerbaijan and the EU increased in proportion to the degree of economic growth in Azerbaijan. During the period of comparison, the correlation coefficient between Gross Domestic Product and foreign trade turnover of Azerbaijan with the EU was positive: 0.91. Even if some recent research casts doubt on the robustness of the relationship between trade openness and growth, the general sense is that trade has a positive effect on growth, especially for countries with small domestic markets³².

If extrapolation is applied to the previous statistics, then the future dynamics of trade turnover between Azerbaijan and EU can be forecast: Azerbaijan and EU will be expanding the trade turnover proportionate with their economic potential. It predicts that Azerbaijan will also keep the rank of the largest economic partner of the EU in South Caucasus in the future. It is obvious that the EU became a major market for Azerbaijan during independence; for example, in 2011, the EU's import intensity from Azerbaijan is considerably higher than its export intensity.

The gravity model, compiled at the Center for Strategic Studies under the President of the Republic of Azerbaijan, shows that, in the event of the access to WTO, there will be an additional increase of Azerbaijani exports by 80 per cent over the long-term. So Azerbaijan is interested in membership in WTO and the creation of a DCFTA with the EU. Because the DCFTA might also contribute considerably to diversification of the commodity structure of exports. According to the concept entitled "Azerbaijan - 2020: future perspective" the non-oil export per capita should reach US\$1,000 by 2020. So the contribution of the DCFTA and free circulation of goods between Azerbaijan and the EU in terms of widening and diversifying export is indisputable. On the other hand, the threat of harm to local SME after convergence with the EU rules should be thoroughly investigated. For example, some experts argue that burdensome regulatory changes undertaken by Georgia to fulfill the preconditions for DCFTA negotiations will, in fact, imply additional taxation of local production, thus endangering the country's economic growth³³.

³² World Economic Forum, *The Global Competitiveness Report 2010-2011*, at http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2010-11.pdf (last retrieved on 30 June 2011).

³³ Patrick Messerlin *et al.*, *An Appraisal of the EU's Trade Policy towards its Eastern Neighbors: The Case of Georgia*, Centre for European Policy Studies, Bruxelles, 2011, p. 1.

Azerbaijan is bringing its laws into conformity with WTO requirements, many of which are already in the pipeline for implementation. In order to increase the non-oil trade turnover with the EU, Azerbaijan needs to continue the improvement of the trade-enabling infrastructure (logistics performance and communication infrastructure) and standards of packaging, certification, marking in accordance with EU conditions. Measures in the field of sanitary and phytosanitary and finishing “Competition Code” will accelerate the convergence with the EU requirements.

Azerbaijan leads the South Caucasus by example, honoring its commitments to the bilateral economic relations.

8. Eastern Partnership and Border Security: Perspective of Azerbaijan

Kamal Makili-Aliyev

Introduction

Even in today's globalized world, the laws of the physics are still in place. Thus, as globalization constantly attempts to annihilate the borders between the states as we know them and find more ways and greater transparency for the flow of goods, people, services and information, there is an inevitable opposing force that requires more and more effort to maintain secure borders for the general good of the populations on each side.

Therefore, it seems only logical that, for an entity such as European Union (EU), Border Security (BS) issues are a very important and pragmatic concern when it comes to applying policies in its relations with neighbors. The EU recognizes that the growing transparency of borders (both within the union and with its neighbors) supports not only the flow of "goods" but also the flow of "bads". Trans-border crimes such as trafficking in all forms, illegal migration, smuggling etc. – are all part of the package when borders are more accessible to the outside world.

Thus, the question of how to make the borders more transparent for "goods" and more secure in terms of "bads" remains and requires constant attention, both from the authorities of the EU, as well as its corresponding neighbors when strengthening relations and cooperation with each other. It is no secret that the EU experiences problems with border security due to specific breeches in the Greece-Turkey border or through their Balkan neighborhood¹.

¹ Alexandroupolis and B. Koviljaca, «The crossing point. Would-be immigrants to Europe can go almost anywhere – for a price», *the Economist*, 3 March 2012, <http://www.economist.com/node/21549012>.

While struggling with such challenges at the very frontier of the Union, it is only logical that the EU would be interested in ensuring that their more distant neighbors have adequate security frameworks.

Hence, Azerbaijan, one such neighbor, is in the exact position to take advantage of the situation for its own development. The first framework that comes to mind when examining EU-Azerbaijan relations is, of course, the Eastern Partnership (EP). That is why, being one of the six state-targets of the Partnership, Azerbaijan is strengthening its efforts toward closer association with the EU. Not the least of such efforts is dedicated to the BS issues.

Such a situation is evident and reaffirmed in the recent Eastern Partnership: Roadmap 2012-2013 (Bilateral Dimension) in which Azerbaijan has its own country-specific requirements. When it comes to security in general, the Roadmap shows that for closer political association through the EP, there is a requirement concerning both security forces and institutions². The situation with security issues is in turn influencing the negotiations on Association Agreements, in major part because, when it comes to general security, the institutional reforms and “Institution Strengthening” is always concerned³.

Efforts to enhance mobility and provide for visa facilitation and readmission go several steps further. Such arrangements are mostly the part of the Eastern Neighborhood Policy (ENP) Action Plan for Azerbaijan. For example, cooperation in the field of border management is one of the priorities (Priority area 9) of such a plan. The priority itself includes actions towards the creation of Integrated Border Management (IBM), border demarcation and full implementation of existing bilateral border co-operation agreements and protocols⁴. Further, according to the plan in matters of border security, Azerbaijan has to: 1) implement the 1990 Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds of Crime, and sign the new 2005 convention on laundering, search, seizure and confiscation of the proceeds from crime and on the financing of terrorism, which is its natural follow-up; 2) establish a dialogue on matters related to the movement of people including readmission and visa issues; 3) review the implementation of the National Action Plan for Combating the Trafficking of Persons as adopted in 2003, and assess progress made and envisage follow-up measures; 4) ensure proper implementation of the UN Convention against Trans-national Organized Crime and its three Protocols to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children, against the Smuggling of Mi-

² European Commission, Eastern Partnership, Roadmap 2012-13 (Bilateral Dimension), SWD(2012) 109 Final, Bruxelles, 15 May 2012, p. 2.

³ *Ibidem*, pp. 9-10.

⁴ ENP Action, Package Country Progress Report, *Azerbaijan*, Bruxelles, 15 May 2012, http://ec.europa.eu/environment/enlarg/pdf/enp_action_plan_azerbaijan.pdf, p. 8.

grants by Land, Air and Sea, and against the Illicit Manufacturing of and Trafficking in Firearms, Their Parts and Components and Ammunition⁵.

The plan goes even further when it comes to border management. It requires Azerbaijan to develop an efficient and comprehensive border management system through a comprehensive education and training strategy. This includes improved understanding of Schengen rules and standards, and enhanced efficiency on the part of Azerbaijan's law enforcement authorities (police, state border service, customs). This goal will be accomplished through the provision of modern equipment, adequate infrastructure, facilities and training in order to increase, in particular, the effectiveness of border crossing checkpoints⁶.

Another large issue concerning BS in EU-Azerbaijan cooperation is mobility in a well-managed and secure environment. Thus, Azerbaijan is also required to pursue modernization of a national asylum system in line with international and EU standards, including an IDP (Internally displaced persons) protection system. In addition, that requirement creates a valid nexus with the issues of migration and readmission. Here the EU urges Azerbaijan to: 1) conclude and implement a readmission agreement with the EU; 2) adopt measures aimed at the sustainable reintegration of returning citizens; 3) introduce biometric passports and ID cards in the first half of 2014 and ensure security of breeder documents; 4) adopt and implement effective legislation ensuring proper protection of personal data; 5) sign and ratify the 2001 Additional Protocol to the 1981 Council of Europe Data Protection Convention; 6) develop an effective migration management strategy, including strengthening the capacities of the State Migration Service and development of a unified database in the field of migration⁷.

Moreover, as Azerbaijan is growing more involved in regional projects, and as the country is generally located in a very geopolitically difficult region, it has to develop an effective strategy for fighting organized crime and enhancing its regional cooperation in that area⁸.

As it can be seen from the above, there are many standards for Azerbaijan to adhere to before it can be fully associated with the EU and its structures. Notwithstanding that these are general requirements; they are needed first to bring the necessary level of development to Azerbaijani institutions in order to cooperate effectively with the European Union, as well as to create opportunities for both Azerbaijan and the EU to operate in a secure and friendly environment. Of course, such efforts should bring about easier people-to-people

⁵ *Ibidem*, p. 9.

⁶ *Ibidem*, p. 14.

⁷ European Commission, Eastern Partnership: Roadmap 2012-13 (Bilateral Dimension), SWD(2012) 109 Final, Bruxelles, 15 May 2012, pp. 20-21.

⁸ *Ibidem*, p. 25.

exchanges, a better grip on migration and readmission and prevention of cross-border crimes.

There are several topics to be discussed here. First of all, there is a need to understand the progress of Azerbaijan in adherence to the requirements of the EP. At the same time, the evaluation of the efforts of the EU is also important in the sense that the framework in itself is built on the principles of reciprocity. This study aims to tackle both the security framework as well as Integrated Border Management issues of BS within the EP initiatives. While analyzing the stronger and weaker sides of the implementation of the EP requirements, this study will compare the situation with best practices, indicate the progress made and development needed as well as conclude with policy recommendations and prognostications for future development.

8.1. Security Framework

In order to create an effective border security framework in the South Caucasus, and in Azerbaijan in particular, several goals must be first achieved. First of all, you must establish open but thoroughly monitored and secure borders in the region as a whole in accordance with European standards and initiatives. Second, there is a need to promote further development to enhance the country's relationship with Europe by strengthening the rule of law, developing greater institutional capacity and promoting regional co-operation. Then, you must use all available counseling and support in military issues in specific fields of security within the overall framework of security sector reform, specifically in the field of BS and smuggling interdiction. Only when such goals are implemented and achieved, is it possible to talk about a comprehensive security framework.

To comprehend the spectrum of the security challenges in Azerbaijan, we must first look at the security concerns that underline the policies of the EU in relation to its eastern neighbors. When it comes to cross-border security, there are major concerns such as trafficking in human beings, trafficking in firearms, child sexual abuse, cybercrime, counterfeiting, money laundering, smuggling, illegal immigration, etc.

In respect to trafficking in human beings, the concerns of the EU are outlined in Directive 2011/36/EU of the European Parliament and of the Council of 5 April 2011 on Preventing and Combating Trafficking in Human Beings and Protecting its Victims. The directive explicitly states in paragraph 1: «Trafficking in human beings is a serious crime, often committed within the framework of organized crime, a gross violation of fundamental rights and explicitly prohibited by the Charter of Fundamental Rights of the European Union. Preventing

and combating trafficking in human beings is a priority for the Union and the Member States»⁹.

For trafficking in firearms there is also a corresponding directive of the EU that «...creates a balance between on the one hand the undertaking to ensure a certain freedom of movement for some firearms within the community, and on the other the need to control this freedom using security guarantees suited to this type of product...»¹⁰.

For child sexual abuse, there is a Framework Decision on combating the sexual exploitation of children and child pornography, and there are also several communications when it comes to cybercrimes, smuggling and money laundering. Thus, the overall concern of the EU with these problems is quite clear.

It is only logical then, that when it comes to the security framework in the EP, the same issues arise when developing border security in Azerbaijan. In the course of last decade, Azerbaijan was able to make some advances in combating such crimes, especially at its borders. The developments are visible even through legislation.

Several amendments to legislation concerning borders have been introduced that have made it more flexible and adaptable to EU standards. For example, when it comes to the legislation on borders, there are provisions now that cover inter-agency an automated information search system of “Entry-exit and registration” that allow for data on border crossings to be shared between the institutional bodies inside the government¹¹. Furthermore, the amendments to legislation have seriously limited use of firearms by the border security and created conditions for more peaceful monitoring of the situation on the border lines¹².

As to the international legal regulations, Azerbaijan was able to implement several norms from treaties that deal with the security framework. For example, Azerbaijan joined the Convention on crimes and some other actions, committed on air transport in 2003¹³, the Council of Europe Convention on Action against Trafficking in Human Beings in 2010¹⁴ and signed the Council of Europe Convention on the Protection of Children against Sexual Exploita-

⁹ Directive 2011/36/EU of the European Parliament and of the Council of 5 April 2011 on preventing and combating trafficking in human beings and protecting its victims, and replacing Council Framework Decision 2002/629/JHA, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2011:101:0001:0011:EN:PDF>.

¹⁰ Directive 2008/51/EC of the European Parliament and of the Council of 21 May 2008 amending Council Directive 91/477/EEC on control of the acquisition and possession of weapons, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:179:0005:0011:EN:PDF>.

¹¹ Law of the Republic of Azerbaijan no. 13 (1991, amended 2010) on the state border of the Republic of Azerbaijan, Art. 11.

¹² *Ibidem*, Art. 37.

¹³ Law of the Republic of Azerbaijan no. 546-IIQ (2003) on joining the Convention «On crimes and some other actions, committed on air transport».

¹⁴ Council of Europe Convention on Action against Trafficking in Human Beings, http://www.coe.int/T/E/human_rights/trafficking/PDF_conv_197_trafficking_e.pdf.

tion and Sexual Abuse in 2008¹⁵. Some of the norms in these international treaties have already been implemented into Azerbaijani legislation, others are pending. However, as is usual with international legal norms, enforcement takes time to establish itself both in the respective national legislation, as well as in the jurisprudence of the country in question.

It is worth mentioning that Azerbaijan has considerably amended its legislation on immigration issues by recognizing illegal immigration as a security threat and a general threat to its national interests, while striving for the implementation of European standards and initiatives in this field. Contemporary immigration legislation, for example, allows permanent residency only to the foreigners or stateless persons who have been residing temporarily in Azerbaijan no less than two years and who have legal grounds to apply¹⁶, thus ensuring the interest of the immigrants in permanent residency. Moreover, the legislation explicitly states that immigration is impossible if the person is considered a security threat¹⁷. In line with that requirement, immigration to Azerbaijan is now impossible for persons who have been previously expelled from of the country for whatever reason, even if they now meet the necessary legal requirements¹⁸.

When it comes to cross-border crime management, it is important to acknowledge that Azerbaijan has been quite successful in tackling such crimes as trafficking in human beings and firearms and exploitation of children. Taking into account that Azerbaijan is a source, transit, and destination country for men, women, and children subjected to forced labor and women and children subjected to sex trafficking, the efforts of the Azerbaijani government have to be noted.

Statistics show that Azerbaijan conducted two new labor trafficking investigations and 17 new sex trafficking investigations in 2011, compared with three labor trafficking investigations and only a few sex trafficking investigations in 2010. Azerbaijan has reportedly prosecuted 20 individuals – nine of which were new prosecutions – for sex trafficking crimes in 2011, when 38 individuals were prosecuted for such crimes in 2010. In 2011, there were 10 convictions of sex trafficking offenders, which is a decrease from the 28 and 58 trafficking offenders convicted in 2010 and 2009, respectively¹⁹. As we can see, the number of trafficking cases has been decreasing due to the more effective crime prevention mechanisms employed by the government. There is also reported progress when it comes to the efforts of Azerbaijan to protect and assist

¹⁵ See the Chart of Signatures and Ratifications, <http://conventions.coe.int/Treaty/Commun/ChercheSig.asp?NT=201&CM=&DF=&CL=ENG>.

¹⁶ Law of the Republic of Azerbaijan n. 592-IQ (1998, amended 2009) on immigration, Art. 4.

¹⁷ *Ibidem*, Art. 7.1.

¹⁸ *Ibidem*, Art. 7.6.

¹⁹ US State Department, Trafficking in Persons Report 2012, <http://www.state.gov/documents/organization/192594.pdf>, p. 77.

the victims of the trafficking. For example, in 2011, one government-funded trafficking shelter continued its activities and assisted 38 victims of trafficking, including one labor trafficking victim. In 2010, it assisted 27 victims. Moreover, the government continued to increase financial aid to the non-governmental sector dealing with trafficking. In 2011 it provided the equivalent of US\$62,000 to NGOs working on trafficking issues, in 2010 the amount was US\$56,700. It has to be mentioned that the Ministry of Internal Affairs of Azerbaijan recognized the work of ten NGOs involved in anti-trafficking issues, awarding each organization the equivalent of US\$1,200²⁰.

It should also be noted that since 1996 Azerbaijan has been a member of the 1949 Convention for the Suppression of the Traffic in Persons and of the Exploitation of Prostitution of Others. At the same time, Azerbaijan ratified the UN Convention against Transnational Organized Crime in 2003²¹ implementing most of its norms in national legislation. Unfortunately, Azerbaijan is still not a member of the Protocol against the Illicit Manufacturing and Trafficking in Firearms, their Parts, and Components and Ammunition; however the control over firearms in Azerbaijan remains very strict.

One other security threat is Azerbaijan's location on a drug transit route. Legislative steps have been taken and Azerbaijan now is a party to the 1988 UN Drug Convention. In 2002, the Azerbaijani parliament adopted a law primarily targeted to strengthening the police mandate to combat drug sales and trafficking. In 2003, the State Commission, with great support of the European Commission Southern Caucasus Action Programme on Drugs (SCAD), established a special resource centre and information network that provides access to a central database of information on all matters of narcotics control. SCAD has also conducted an epidemiological survey of drug use and abuse in Azerbaijan. Azerbaijan has also established cooperation with the Black Sea and Caspian Sea littoral states in tracking and intercepting narcotics shipments, especially heroin and those that are morphine-based. Caspian Sea cooperation includes efforts to intercept narcotics transported across the Caspian Sea by ferry²².

While conducting efforts to combat these aforementioned threats, Azerbaijan is steadily reforming its legislation and policies to reflect European standards and instruments. It can well be said that at a certain level, Azerbaijan has been able to establish a legal framework where respective powers, functional responsibilities, roles and missions of police, customs authorities and military are clearly defined in legislation. At the same time, there is a need on the practical level to reform, enhance and develop certain means and methods

²⁰ *Ibidem*, p. 78.

²¹ See status of ratification of CTOC, <http://bit.ly/LYdlnx>.

²² European Commission, Commission Staff Working Paper, SEC(2005) 286/3, Bruxelles, 2 March 2005, p. 13.

of dealing with security threats where combined civil and military efforts are concerned. For example, special focus should be dedicated to joint operating procedures (when it comes to the appropriate legal framework), command and control arrangements and the rules of engagement. These measures are important in terms of inter-institutional cooperation. At the same time, some effort should be directed towards enhancement of risk assessment instruments because joint access to the data on risks and threats is extremely important for effective implementation of security policies. The next logical step would then be to develop interoperable national mechanisms and procedures for the exchange of information. At the higher level, there is a need to clearly delineate the duties and responsibilities between civil and military units when engaged in the BS framework. Furthermore, their respective contributions should be evaluated and assessed on a regular basis to further adjust the policies towards effective control over the borders.

All of the aforementioned means and instruments have yet to be reflected in both Azerbaijani legislation and in practice by its security forces. Only by achieving such ambitious goals is it possible to build a comprehensive border security framework.

8.2. Integrated Border Management Framework

Through its policies and initiatives, the EU makes it quite clear that the way to effective border security, constant diminishment of cross-border crimes and illegal migration, lies in the development of efficient and reinforced Integrated Border Management (IBM). Thus, one of the main objectives of the EU for the development of IBM framework in the countries of the Eastern Partnership is the development of efficient customs and border controls at border crossing points, capable of ensuring proper protection and equipping border security forces so that they can achieve EU standards.

Being one of these states, Azerbaijan is ultimately focused on the improvement of its institutional capacity to build a comprehensive and effective IBM. The developments and initiatives of Azerbaijan will be discussed below, but first there is a need to outline the challenges the IBM generally faces when it comes to the implementation of its policies.

As Otwin Marenin (legal scholar at Washington State University) rightfully suggests, when it comes to the establishment of IBM, «...problems and goals have to be agreed on and defined; appropriate conceptualizations of borders and their problems have to be developed; the idea of integrated border management (IBM) requires a clear policy statement naming the institutions and practices which will have to be integrated; plans on how the integration process will be implemented,

by whom and in what sequence have to be written; and success criteria for evaluating progress towards IBM have to be designed and validated»²³.

Indeed, the path to success with such a complicated framework as IBM lies in research on the specifics of the borders to be managed. However, it is inevitable that, at the end of the day, the policymakers will face two of the ultimate tasks of any border management activities namely: 1) rooting out security threats and illegal crossings and 2) maintaining the balance of openness and closure of the border itself. Thus, it needs to be always kept in mind that border security and control as well as the implementation of the IBM are political activities and the enforcement of any policy depends on political will even more than on a well-built “action plan”.

The introduction of IBM to the Azerbaijani BS has made several, albeit small, but solid steps over the last decade. The largest initiative was making Azerbaijan a part of the South Caucasus Integrated Border Management Programme (SCIBM). This programme is an initiative of EU, implemented in Azerbaijan through the United Nations Development Programme in 2010. SCIBM is actually one of the largest EU-UNDP assistance programmes in the South Caucasus.

The main component and goal of SCIBM is capacity development for IBM through training and exposure to European good practices for all stakeholders involved in the border management field. Secondary goals of the programme include provision of equipment to leverage what is accomplished through specialized training and to promote efficient security, law enforcement and trade operations at selected Border crossing points (BCPs) on the Georgian-Armenian and Georgian-Azerbaijani borders²⁴.

The total budget of the programme is US\$2,018,394, where EU funding is US\$1,917,474 and UNDP core resources are US\$100,920²⁵. Thus, the UNDP mainly covers organizational costs of implementation, whereas the funding of the project itself is covered by the initiator – the EU.

The SCIBM outlines its overall objective as enhancement of inter-agency and international co-operation between the countries of South Caucasus, EU Member States and other international stakeholders as well as facilitation of the movement of persons and goods across borders, while concurrently maintaining security²⁶.

At the same time, the concrete objectives of SCIBM also include enhancement of strategic border management capacities, development and establishment of broad BCP level procedures and operations, demonstration of

23 O. Marenin, *Challenges for Integrated Border Management in European Union*, Occasional Paper n. 17, Centre for the Democratic Control of Armed Forces (DCAF), Genève, 2010.

24 See Programme description, <http://scibm.org/>.

25 UNDP project description, <http://www.un-az.org/undp/sehife.php?lang=eng&page=02000103>.

26 SCIBM Programme outline, <http://bit.ly/NQHIQH>.

the benefits of IBM via the implementation of pilot programs and delivery of equipment for pilot BCPs for implementation of IBM. Moreover, the main activities of the programme are divided into five groups based areas of responsibility. The first group deals with raising IBM awareness and supporting strategic border management capacity including: 1) IBM assessment and preparation of the detailed work plan; 2) IBM awareness for decision makers; 3) IBM public outreach (public awareness raising/visibility) and 4) development of IBM systems. The second group is focused on strengthening the operational techniques and procedures to include workshops and research: 1) workshops on IBM awareness for Operational staff; 2) workshops on exchange of information and networking; 3) workshops on control procedures including regular workflow and contingency; 4) workshops on risk analysis and management and 5) development of manuals of procedures. The third group covers training and pilot program development: 1) training of the trainers in methodology and development of a common basis for possible bilateral training programmes; 2) further development of training curricula and implementation of pilot training programmes; 3) production/acquisition of specific media for training. There are also two separate standing activities: 1) the establishment of pilot border crossing points and 2) provision of respective equipment/IT systems and training²⁷.

The programme in its implementation took into account the risk factors as well as threats to the security of the borders outlined through the discussions with the Azerbaijani government. Such issues include: 1) the fact that Azerbaijan is a transit country and as such is in a unique geographical position; 2) the fact that the borders with Georgia and Armenia are still to be delimited and demarcated, while the sea borders on the Caspian are defined only with Russia and Kazakhstan (decisions with Iran and Turkmenistan still pending); 3) the smuggling of drugs and weapons related to international terrorism and the proliferation of weapons of mass destruction; 4) activities of illegal migrants in neighboring countries; 5) the fact that part of the territory is outside the effective control of Azerbaijani authorities²⁸.

Development of IBM on the other hand depends largely on a comprehensive and effective and regulatory framework. The State Border Service and State Customs Committee are the two main border agencies present at the local level in Azerbaijan. Their legal jurisdiction in Azerbaijan is quite comprehensive.

The State Border Service (SBS), for instance, enjoys a separate law on state border service and there are even some internal regulations concerning intra-service cooperation. On the other hand, the State Customs Committee (SCC) has its own customs code that was adopted in 1997.

²⁷ *Ibidem*.

²⁸ SCIBM. Mid-term assessment report. October 2011, <http://bit.ly/OcUaGD>, p. 15.

The principle of trade facilitation became one of the priorities of SCC by the presidential decree in 2007. Since the very beginning of 2009 SCC introduced the system of “single window” at all its customs check points as a follow-up on the special presidential decree of 2008. The same decree has also delegated the performance of controls over veterinary and phytosanitary goods to the SCC. The cooperation between the SBS and the SCC is thus crucial for effective border management. Despite that, there are no formal agreements between these agencies outlining guidelines for cooperation²⁹. It seems that there is a general understanding between the agencies and cooperation takes place informally, which cannot be the best practice of modern border management.

The main body responsible for the border security is thus, the SBS. It was created in the 2002 as an independent agency in direct subordination to the president. The primary functions of SBS are the protection and surveillance of the state border, check-ups of persons and transportation at the border, investigation of cross-border crime, combat of terrorism and the protection of pipelines.

The centralized structure of the SBS is notable. Its hierarchy has to operate on three levels – central, regional and local. SBS conducts its border surveillance, employing ground units as well as an aviation squadron and a coast guard fleet. The SBS is in possession of a large infrastructure with appropriate equipment and communications. For example, there are special rapid reaction groups deployed in times of need for the purposes of providing support and assistance to the border surveillance and investigative units that deal with the activities of illegal border crossings, cross-border crimes, smuggling etc³⁰.

Some legal framework in Azerbaijan is also dedicated to important contemporary border security and an integral part of modern IBM – biometrics. In 2008, Azerbaijan adopted the law on biometric information. In Art. 1 this law defines biometric information as biometric data, accumulated, stored, processed and transmitted in information systems with the aim of identification and verification³¹. According to the law, biometric data can be collected to facilitate the creation of identification documents as well as for migration and border control (security)³². Legislation also provides for the creation of a biometric identification system (BIS). It allows for such a system to be used to enhance and prompt the activities of face-recognition and information exchange in regard to border control. At the same time, it allows for BIS to be used as a data support tool in combating illegal migration, terrorist activities,

²⁹ *Ibidem*, p. 22.

³⁰ Law of the Republic of Azerbaijan no. 772-IIQ (2002, amended 2007) on the state border service of the Republic of Azerbaijan, Artt. 3-23.

³¹ Law of the Republic of Azerbaijan no. 651-IIIQ (2008) on biometric information.

³² *Ibidem*, Art. 3.2.

human trafficking and other cross-border crimes and to enhance control over migration processes and border crossings. Moreover, that system can now be used to reinforce the security of identification documents and visas and for the exchange of information with international biometric information resources in the field of migration³³.

It is worth mentioning that before SCIBM there was another considerable initiative dealing with IBM. The International Organization for Migration (IOM) had a two-year project called “Establishment of Integrated Border Management Model at the Southern Borders of Azerbaijan”. Financial support was also provided by the EU. The IOM have been implementing this project since June 2006. By establishing IBM on the southern border of Azerbaijan, IOM also strived to institutionalize cooperative data collection, to share and analyze risk management and to create awareness in Azerbaijani authorities of a more complex use of IBM. Through its project, and with the aim of furthering its goals, the IOM facilitated the creation of the Border Guards Training School that is currently operational. It delivers training activities as well as organizes international events with the SBS³⁴. At the same time, the overall impact of the project is not considerable on the national level.

Despite all the general developments in the IBM framework area, it can be safely said that Azerbaijan is at a very early level of implementation of IBM. Certain good practices and instruments have been applied in several areas of BS; however, there is a clear lack of coordination of measures and inter-agency cooperation.

Conclusions

As can be seen from above, improving border security requires much more than just a well-implemented policy. It entails both the political and legislative will to put at least some standards into place. Trying to implement those standards brings an even larger variety of issues, including building a framework for coordination and communication to ensure effective inter-agency cooperation. Apart from that, there is a need for considerable resources, managed effectively to create effective border control and surveillance.

Hence, Azerbaijan is right now facing all of these challenges while trying to accommodate the needs of steady and progressive development of its BS. On one hand, there are security threats that must be constantly addressed, on the other – an integration process of IBM.

It is clear that Azerbaijan has made a considerable progress when it comes to security issues on its borders. Cross-border crime-fighting and illegal

³³ *Ibidem*, Artt. 7.0.1, 7.0.3, 7.0.6, 7.0.10.

³⁴ IOM Azerbaijan. Project description, <http://iom.az/projects/complete/ibm/>.

migration-prevention activities have reached new levels of success. While cross-border crime levels are decreasing and the State Migration Service of Azerbaijan is making steady progress towards illegal migration control, the border authorities still face many problems.

For one, there is the quite common problem of gathering statistics on illegal border crossings and crimes such as trafficking and smuggling. Authorities can effectively estimate the number of cases they solved on the border and these go into the statistics; however, there is no estimation of how many unlawful acts were successful over the border. Furthermore, there is a clear need for new forms of inter-agency cooperation. More formal and legally binding forms of communication and inter-assistance between border authorities should be in place. Moreover, there is also a need to institutionalize cooperation with neighboring countries because every border has at least two sides.

In that sense, an example of a good practice can be found in Poland. That country was able to bring large number of changes into its framework of BS in a relatively short period of time. Poland has done its best to meet stringent EU requirements. It has adapted its national laws to be fully compatible with EU laws and was able to effectively manage substantial EU funds and resources for its BS development. More importantly, Poland has clearly identified its BS priorities and managed to cope even with the budget shortfalls³⁵. Moreover, the Polish government was able to develop very comprehensive strategic plans for future development.

When it comes to IBM, there is also some progress in different areas of border management in Azerbaijan. SCIBM has clearly made an impact on the overall development of the concept in the country. First of all, and what is really important, it was able to raise the awareness of the authorities about the concept itself, as well as bringing its efforts to the highest levels of executive power in Azerbaijan.

It has to be noted, that the SCIBM project made valuable recommendations to border management that are now being successfully applied. It was also able to promote the digitalization of the information provided by the BS authorities recommending that they create an accessible Internet webpage. That recommendation has now been successfully implemented. SCIBM was also able to stir the political will enough for the authorities to start considering the plans for institutionalization of IBM's implementation in the country. Moreover, SCIBM have now developed the draft of a "Border Code" that will be presented to the government of Azerbaijan for legislative consideration and approval.

³⁵ R. "Ozzie" Nelson *et al.*, *Border Security in a Time of Transformation. Two International Case Studies - Poland and India*, Report of the CSIS Homeland Security & Counterterrorism Program, Europe Program, and South Asia Program, Washington D.C., 2010, p. 18.

All this effort and its attendant success is no doubt a good start; however, there is still much for Azerbaijan to do and the nation still lacks certain things necessary for the effective implementation of IBM.

For example, based on the general analysis of the situation and current research, it can be safely assumed that there is no “IBM Strategy” for now in Azerbaijan that would be able to establish midterm and long-term goals aimed at improving cooperation in the security services, inter-agency cooperation, international cooperation, *inter alia* outlining measures for the development of border security and control and, in effect, ensuring security and safety of people, environment and stability while simultaneously fighting cross-border crimes. Moreover, there should be also an “IBM Action Plan” that would reflect the aforementioned strategy to facilitate its implementation. Without such a comprehensive strategy and planning, the effective integration of IBM into Azerbaijan’s BS will be impossible.

Through the application of a comprehensive strategy, Azerbaijan will be able to accomplish several goals. Two of these are primary. First the nation will be able to strengthen customs border controls as well as its border service enforcement capacities. Second, it will acquire special training equipment, transportation vehicles for field and training purposes, special equipment for border surveillance, border control and execution of efficient customs control.

However, as is usual in the real world, not all the factors are in place to provide a clear path for the development of an efficient BS for Azerbaijan. There are many political and *ad hoc* hindrances that are considerably slowing both the general development, as well as BS enhancement in particular.

Even if we forget that Azerbaijan is located in a very difficult geopolitical region bordering on Russia and Iran, while linked by the Caspian Sea to Central Asia, there is also the Armenian-Azerbaijani conflict over Nagorno-Karabakh that left Azerbaijan with around 20 per cent of its territory occupied and a closed border with an aggressor-state – the Republic of Armenia. Occupation from Armenian side has left approximately 558 km of Azerbaijani borders outside the effective control of the Azerbaijani government³⁶. Due to this fact, even the South Caucasian IBM project, that was supposed to link and integrate states, is forced to work only with the borders Armenia-Georgia and Azerbaijan-Georgia.

Thus whatever the efforts of Azerbaijan towards more effective, ethical and friendly BS, a hindrance such as the above-mentioned conflict will inevitably slow down any effort in the development of the practices compatible with those of EU. Thus, there is also need for the action on the part of EU to assist in the just resolution of this aforementioned problem in line with international law. This will lead to open borders and more accessible integration

³⁶ According to the data provided by the Ministry of Defense of the Republic of Azerbaijan.

processes of BS both among the three Caucasian states and for these states with EU.

It is quite clear that counseling, education and financial aid of the EU are very useful and support the slow process of development of integrated BS. However, without political assistance, this process cannot be considered fully effective and time-friendly. Still, it is quite clear that Azerbaijan is on the right path and will continue with further development of its border security, adopting it to the best standards and practices of the EU established by the concept of Eastern Partnership.

The Way Forward for EU-Azerbaijani Relations. Concluding Remarks and Policy Recommendations

The Eastern Partnership (EaP) represents the most ambitious project launched by the EU in order to support political and socio-economic reform in its neighbourhood, with a view to stepping up political association and economic integration. As recently highlighted by the EU Commissioner for Enlargement and European Neighbourhood Policy, Stefan Füle, much has been achieved in terms of political association, economic integration, mobility and sectoral cooperation since the launch of the EaP. However, although the EaP can be viewed as an improvement with respect to the European Neighbourhood Policy, much work has still to be done both in Brussels and in partner countries in order to provide the EaP framework – and, broadly speaking, the EU regional policy – with greater efficiency and strategic depth.

Firstly, looking at the framework as a whole, the EU should have a more targeted and country specific policy towards single EaP partners and an Eastern European regional strategy, that is full implementation of differentiation principle as reflected in the Eastern Partnership Warsaw Summit of 2011. In other words, on the one hand, Brussels should be aware of Azerbaijani political, economic, social and security features and attempt to adapt its approach accordingly. The most appropriate channel to do this would be the EaP bilateral track, given the priority Baku attaches to it as the main platform for cooperation (this does not mean overlooking the multilateral track, although its role would be secondary). The more-for-more policy allows such a flexible approach. The bilateral track, however, should be conceived as a two-way instrument where both sides advance their needs and demands, and common ground is sought to be reached. On the other hand, a regional EU Eastern strategy is needed to indicate to EaP partners EU regional priorities and goals (first and foremost its relations with Russia). So far, the latter component is missing but its gradual emergence will smooth regional cooperation and inte-

gration dynamics. For example, the EU should play a more pro-active and balancing role in regional affairs between Azerbaijan, Armenia, Georgia and Turkey as this will raise its international profile, strengthen its positive image in the eastern neighbourhood, help mitigate regional tensions, and hence avoid renewed hostilities that might be dangerous for itself.

Secondly, and in relation to the above stated policy recommendation, the EU should not ignore the Armenian-Azerbaijani conflict over Nagorno-Karabakh, but instead it should explicitly address it. The work of the current Minsk Group has not led to any breakthrough. This fact should be seen by Brussels as an opportunity to propose new instruments and fora for a more active involvement in conflict resolution and mediation efforts. The perpetuation of tensions harms not only Armenian-Azerbaijani relations but also the viability of a EU policy, given the impossibility of Baku to fully participate in the multilateral track due to the conflict with Yerevan. Conflict resolution should be an inherent part of the overall approach (strategy) towards the eastern neighbourhood and not a problem that the involved partners (in this case Azerbaijan and Armenia) are expected to solve by themselves. As such, it should be clearly stated in EaP founding and working documents and there should be consistency between goals, means to achieve them and their interpretation. At the same time, the EU should not differentiate Armenian-Azerbaijani conflict over Nagorno-Karabakh from other ethno-territorial conflicts which occurred in the territory of the former Soviet Union. Therefore, a clearer and sounder EU position with regards to the conflict resolution and mediation processes in its eastern neighbourhood is urgently required from the EU's end.

Last but not least, whilst the EU should not abandon its democratic values and standards implied in its integration process, greater pragmatism and sectoral cooperation are required in relations with Azerbaijan to bring about/reach a convergence towards common objectives and achieve their full realization.

On this backdrop, the analysis of sectoral cooperation in the key areas of EU-Azerbaijani relations – on which this volume focuses – may help understand the “state of the art” of the bilateral relation, as well as suggest concrete ways to improve the overall EaP framework.

1. Energy Security

Energy cooperation represents one of the main pillar on which EU-Azerbaijan partnership and entente are founded and have been flourishing. Indeed, bilateral energy cooperation brings together EU strategic need to diversify its hydrocarbons – and particularly gas – supply channels and Azerbaijani interest in identifying reliable and profitable final markets for the flow of its natural

gas in the mid and long terms. These two interests have been merging in the drive to build a gas pipeline capable of providing EU the supply stability and, at the same time, ensuring Azerbaijan stability in gas demand, that is merging together energy security needs of consumer and producing countries.

Notwithstanding the final route which will be selected for the flow of the Shah Deniz (SD) gas, the forthcoming inauguration of the EU Southern gas Corridor “first leg” from Azerbaijan stands as the main accomplishment of the energy partnership between Brussels and Baku. However the way in which the partners reached this point and the uncertainties which still characterize the infrastructure selection process highlight the main shortcomings in the bilateral energy partnership. Indeed, although EU’s – and particularly Commission’s – efforts were important in facilitating and supporting the development of the pipelines scheme, they did not play a decisive role in the “energy game”. Instead, such a role was played by energy companies with the direct or indirect support of respective national institutions. Whilst companies’ primary role is inscribed in the market rules and in the bottom-up approach of TEN-E (Trans-European Energy Networks) normative, Member States’ external energy policies have turned to be, more often than not, contradictory and contrary to the spirit of intra-European solidarity that should represent the foundation of EU common energy policy. Hence, the forthcoming opening of the Southern Gas Corridor’s “first leg” linking Azerbaijan to European markets was primarily the results of a convergence of interests and policies among energy companies, member states, partner countries (both producers and transit) and EU institutions. On this backdrop, in order to provide EU energy policy with more effective tools it would be important to reform the TEN-E scheme and to individuate means to ensure consistency between European and national energy infrastructure priorities, that is to coordinate the prioritization of infrastructures at EU and Member States level, especially with regard to cross-border projects.

The scarce intra-EU coherence in the infrastructures’ prioritization process seems to be part of a wider shortcoming in EU regional approach consisting in the lack of a consistent political vision and strategy toward the Southern Caucasus region, where it seems not possible to “decouple” economic and political issues. Indeed, the relevance of the energy projects and cooperation can hardly be considered in merely economical terms, the more so if the perspective of non-EU producing and transit countries is taken into account. Leaving aside Georgian and Turkish political interests in supporting the Southern Corridor development, Brussels cannot ignore Azerbaijani expectation that the SD gas will enhance the country’s security cooperation with the US, NATO and with those European countries whose majors were investing millions in the Caspian projects. Developing a consistent regional strategy and enhancing EU regional political profile seems to be the more urgent since some of the politi-

cal knots which still hamper cooperation in the Southern Caucasus have direct influence on energy cooperation and threaten to undermine Brussels' long term aims. The most immediate of such knots is the unresolved issue of the Caspian Sea legal status, which makes the full exploitation of the Basin's energy potential – in terms of developing the Southern Corridor's trans-Caspian leg – largely unrealistic. Hence, besides developing a more coherent and comprehensive regional approach, the Eu shall engage in facilitating – if not mediating – role in the regional dispute that more directly affect its energy policies' aims.

At the same time, however, Brussels can no longer afford not to tackle the most difficult regional issues, first and foremost the “protracted” conflicts one. Indeed, although the Karabakh issue is not directly linked to the development of energy projects, at the same time it generates a climate of regional tension and uncertainty which naturally hinders economic cooperation and which – as shown by the 2008 Russia-Georgian war – may put at risk energy infrastructures' safety. Moreover, the need for Brussels to recognize such a linkage stems from the consideration that one of Baku's main objectives pursued through energy cooperation is the attempt to gain support from – and political leverage towards – partner countries and Eu as a whole, in view of a favorable resolution of the Nagorno Karabakh conflict.

With specific reference to energy cooperation, EaP did little to address the shortcomings in EU-Azerbaijani partnership, both within its bilateral and multilateral frameworks. On the bilateral track, EaP did not reverse the tendency which saw the main decision concerning the implementation of the Southern Corridor concept being taken above and outside EU institutional framework and initiatives. At the same time, on the multilateral track EaP failed in advancing a regional energy cooperation scheme based on EU normative and regulation. Such a shortcoming seems to reflect the failure of both the bilateral energy engagement and the various multilateral framework – from the Baku Initiative to the Black Sea Synergy and the Eastern Partnership – aimed at accomplishing the goal of fostering regional cooperation through the sharing of rules and the gradual reception of the *acquis communautaire*.

Summing up, it appears necessary for EU to:

- develop a comprehensive regional approach and step up political engagement with the region, particularly through (a) a mediation or facilitating effort aimed at solving the Caspian legal status dispute and (b) the appointment of an High Representative for Energy;
- review the TEN-E scheme according to the proposal put forward by the Commission in 2011;
- revive the attempt to create a block purchasing mechanism for Caspian gas – like the Caspian Development Corporation – aimed at aggregating member states' gas demand.

At the same time, and the more so in consideration of SOCAR attempt to expand its interests and share in the EU midstream and downstream sectors, Azerbaijan shall:

- move forward towards the reception of EU norms and rules in the energy sector, hence facilitating Brussels effort to create a “Pan-European Energy Space” with the ultimate goal to join the Energy Community Treaty;
- invest politically in the resolution of the sovereignty dispute with Turkmenistan on Kyapaz/Serdar Caspian field, in view of facilitating the resolution of bilateral hurdles towards the delimitation of respective sea borders.

2. Economic Cooperation

The EU should incentivize Azerbaijan to comply as much as possible with the *acquis communautaire* regarding in particular those topics covered by the EAP. This would allow Azerbaijan to integrate with the EU’s common market. At this stage “Europeanization” seems the most suited instrument to deep economic integration. A number of important matters including the increasing cooperation in the field of investment and trade, approximation of legislation, progress towards the launching of talks on the Deep Free Trade Agreement, and development of integration of transport and logistics infrastructure should be in focus. We believe that the following measures could further improve the level of cooperation between the recommendations EU would make cooperation between the EU and Azerbaijan:

- in order to manage the competitive pressure of the future single market with EU Azerbaijani government should continue to contribute producers to make packaging, labeling, marking and certification in line with the EU standards;
- to increase the export from Azerbaijan to the EU market using the concessions within the framework of GSP+;
- development of the set of laboratories carrying out examinations to specify compliance of quality and safety of products respect to EU standards. Approximation of legislations would lead to more convergence;
- strengthening all those frameworks encouraging cooperation and exchange of best practices among informal actors (enterprises, managers, associations, experts) both in the EU and Azerbaijan;
- attraction of European investment to the non-oil sector of Azerbaijan, including transport, logistics, tourism, banking, food processing etc;

- Azerbaijan is not only attracting FDI from Europe, but it could also amplify investment activity in Europe;
- to continue policy to ensure that transport safety and security environments are in line with the European standards;
- Azerbaijan, as the partner of TRACECA (Transport Corridor Europe-Caucasus-Asia) countries and the EU and China, might face the challenge of differential safety and security legislation, regulations and standards among them. So it should be found out the golden rule among different standards;
- to develop transport infrastructure among Caspian, Black and Baltic Sea;
- to increase the quantity and quality of projects within the Eastern Partnership aimed at to contribute to the improvement of the business climate and support SME. European banks should expand its MSME (Micro, Small and Medium-sized Enterprise) lending portfolio in the regions outside of Baku with a particular focus on agricultural lending. This is particular useful for Azerbaijan economic diversification;
- Azerbaijan ratified the Revised European Social Charter on 2 September 2004 and has accepted 47 of the 98 paragraphs. In order to bring sides close to each other it should be discussed the cases of non-conformity. To continue the policy that refers to the population's income levels should gradually be brought to levels compatible with the requirements of the Revised Charter.

3. Border Security

Azerbaijan is considered by the EU to be especially relevant because of its geo-strategic position at the crossroad of turbulent regional contexts that, after the last waves of enlargement, have come to be very close to the Union. Indeed, not only the proximity to states such as Iran and Russia, but also the fact of being a potential transit route for transnational challenges and threats has been valued by the Union. The country seems indeed to be a potential corridor for international terrorism, organized crime and illicit activities, smuggling and trafficking in human beings and illegal migration. All these challenges are of particular relevance to an actor such as the EU which has decided to abate its internal borders to facilitate the movement of people and activities.

Thus, the European Union has attached a great importance to issues such as border security and the regulation of mobility in relations with Azerbaijan. On its side, this latter state has recognized the importance to set more effective relations with the European Union to both upgrade its position in the international landscape as well as to possibly profit from the opportunities open from the cooperation setting. Also, the country acknowledges the impor-

tance of cooperation in border security: in fact, developing capabilities in this sense would not only advance relations with the Union, but also help protect against transnational challenges proliferating around its frontiers.

Among others, the Eastern Partnership, which represents the most advanced stage of relations engaging the European Union and Azerbaijan, confers a particular importance to border security and mobility as issue areas, suffice to recall that questions related to these matters are encompassed both in the bilateral and the multilateral tracks composing the overall framework. And yet, coming to a definite conclusion about the policies undertaken looks as premature: although aiming at encompassing previous patterns of cooperation, lots of measures have yet to fully develop and be implemented, while relevant modifications to the main approach keep surfacing. Also, an approach prominently based on capacity developments such as the one adopted by the Eastern Partnership needs time to take ground and more so to be positively or negatively assessed.

Not all eastern countries face the same level of cooperation within the Partnership; while this perfectly mirrors the conditional strategy of the Union, the situation can also de-potentiate coordination among states in the region. Thus, more attention has to be paid to regional initiatives, which are those that promise to have a major impact on border security improvement if one recalls that borders are always shared. From this point of view the European Union could try harder to profit from the multiple fora of discussions available on borders and mobility hosting eastern countries and Azerbaijan in particular.

As far as concrete achievements are considered, neither Visa liberalization nor a Mobility Partnership, which look as the most promising ways to come to term with a third country, are yet in force. This can be explained both with the high requests posed by the Union and the slow process of accommodation set in motion by Azerbaijan, which, notwithstanding having endorsed multiple measures and provisions, is half way in the process of European and International standards adherence. Nevertheless, mobility opportunities as well as contacts between people should be further increased, so as to create mutual confidence and get respective societies and activities closer. In doing that, the EU should effort at partly modifying its traditional approach, visibly based on security concerns regarding inflows into the Union: attention should not only be pointed at readmission but also at movements facilitation.

An agreement with FRONTEX (European Agency for the Management of Operational Cooperation at the External Borders of the Member States of the European Union) would significantly help develop and potentiate those capabilities necessary to watch over Azerbaijan borders and would improve risk-assessment analyses as encouraged by the European Union. Also, the EU should engage in the activities concerning the conflict resolution measures to

lift the hindrances in border cooperation between Partners and standards implementation in respective states. Finally, the Union should keep attention to the issue of refugees, asylum seekers and internally displaced persons, as these categories of persons are of particular relevance for the EU as a global actor. The issue would be of major relevance also for Azerbaijan, because upgraded protection standards would change other actors' perceptions on the country democratic performances. Helping develop protection measures compatible with international standards should thus remain a leading objective of EU-Azerbaijan relations.

For Azerbaijan, Eastern Partnership framework is definitely more than just a chance to further integrate into the European family and get closer to EU both in terms of foreign policy and relations as well as people contacts. It is also a chance to use the experience and efficiency of European structures to develop its own standards and policies as well as infrastructure. In that sense border security only comes natural. Taking into account the importance of the borders for Azerbaijan that is criss-crossed by the trade routes that connect East and West in the region, it can be safely said that the importance of effective, transparent and at the same time, secure borders is very hard to underestimate.

In that sense, it will be productive for Azerbaijan to concentrate on the implementation of the standards proposed by EU that would inevitably bring the desired level of mutual response from the EU side. However, it should be noted that there are parallel processes that can be considered overlapping. Thus the process of the rapprochement should be conducted from both sides simultaneously.

At the same time European specialized programs are very important if their engagement can be considered broad and effective. Taking into account the need of Azerbaijan for balance between secure borders and the development of the infrastructure to reflect European standards, it is crucial to increase the level of involvement of such programs.

It is only logical then that a comprehensive "IBM Strategy" can establish midterm and long-term goals aimed at improving cooperation in the security services, inter-agency cooperation, international cooperation, inter alia outlining measures for the development of border security and control and, in effect, ensuring security and safety of people, environment and stability while simultaneously fighting cross-border crimes. Azerbaijan potential can be very well reflected in that strategy and allow for the effective planning to be implemented as well.

After completing its strategy, Azerbaijan will need to concentrate on drafting an "IBM Action Plan" that is important with the aim to strengthen customs border controls as well as its border service enforcement capacities. Through that Azerbaijan will acquire special training equipment, transporta-

tion vehicles for field and training purposes, special equipment for border surveillance, border control and execution of efficient customs control.

Then, as the new digitalized forms of development are already available, they should be introduced to create greater awareness of the processes of cooperation with EU on the border security matters, thus attracting civil societies response and participation in the programmes aimed at the implementation of the cooperation activities.

Lastly, reinforcing participation in the negotiations with EU on matters of migration, border-crossings, trans-border crimes combating, etc. will further the aim to speed-up process of association with EU on border security framework.

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